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ABSTRACT

This kit consists of a set of resources to assist those interested in the start-up and management (incubation) of a new business. A guide to starting and managing a small business incubator (SBI) is provided. Included in the guide are the following: a discussion of the role and characteristics of the SBI concept; guidelines for carrying out the SBI development process (establishing a working group, defining goals and objectives, collecting information on other projects, analyzing the local economic base and small business support network, performing preliminary financial feasibility studies, reviewing data, identifying and selecting a suitable facility, developing a marketing strategy); nine worksheets on the aforementioned topics and an appendix that explains SBI facilities and methods of financing an incubator. Three pamphlets provide perspectives of some persons involved in SBI, a directory of state contact persons for the 50 states and SBIs currently in existence in some of the states, and a summary of additional resources on SBIs. A sample issue of the Small Business Administration's newsletter, "Incubator Times," is also included. (MN)

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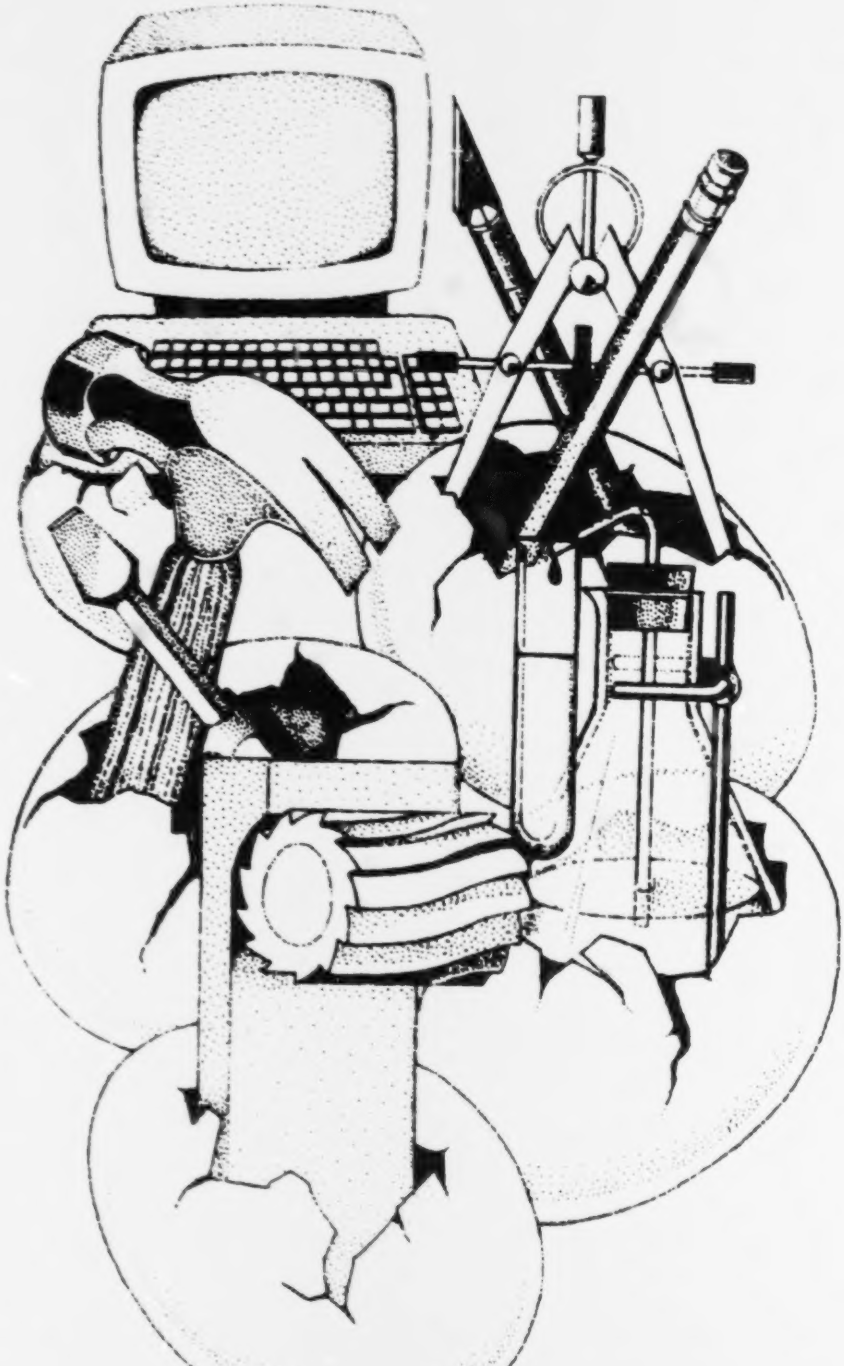

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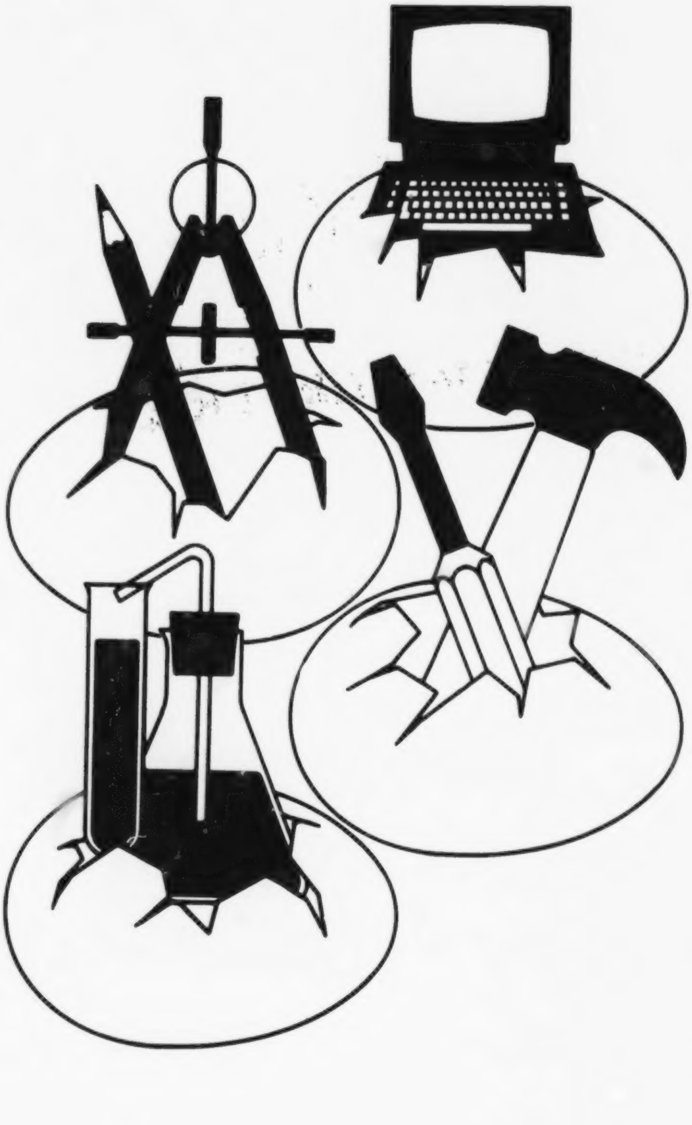
SBA

Small Business Incubator Handbook: A Guide for Start-up and Management



"A Partners for Small Business Publication"

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TABLE OF CONTENTS

Page

INTRODUCTION 1

I. THE INCUBATOR CONCEPT: ITS ROLE AND CHARACTERISTICS 3

II. THE INCUBATOR DEVELOPMENT PROCESS

A Steps for Getting Started

1. Establish a Working Group 08
2. Define Goals and Overall Objectives 11
3. Collect Information on Other Incubator Projects 12
4. Analyze Local Economic Base 14
5. Assess Small Business Support Network 17
6. Perform Preliminary Financial Feasibility Study 18
7. A Second Look - Review your Data 19

B. Steps for Successful Implementation

8. Identify and Select a Suitable Facility 20
9. Develop Management Plan for Facility 21
10. Financing the Incubator 30
    Possible funding Sources - A Checklist 34
    Available Programs For Funding Incubators 35
11. Developing a Marketing Strategy 68

III. WORKSHEETS

1. Incubator Working Group 75
2. Establish Community Goals and Objectives 78
3. Information on Incubator Facilities 79
4. Analyzing the Local Economy 82
    Part A - Characteristics of Range Local Companies 83
    Part B - Company Supplier Analysis 84
    Part C - Assessment of Entrepreneurial Activity . 85
    Part D - Commercial Real Estate Supply 87
    Part E - Commercial Real Estate Demand 88
5. Assessing the Small Business Support Network 89
6. Facility Site Survey 91
7. Ohio University Innovation Center Pre Application . . . 92A
8. Funds for Getting Started 93
9. Estimate of Project Development Costs 94

IV. APPENDIX

Incubator Facilities and Methods of Financing 95

INTRODUCTION

This handbook is designed as a workbook and resource guide for individuals and organizations interested in exploring the establishment of an incubator in their community.

Establishing an incubator requires a major commitment of resources. The goal of this handbook is to provide information and a suggested framework for a local organization to undertake such a project.

While this handbook provides a substantial amount of information, it has its limitations since the capacities and capabilities of local organizations and programs play a major role in any incubator project.

There are four sections of this handbook. The first section provides an overview of the concept and the characteristics of business incubators.

The incubator development process - the second section - is divided into sections. First is a thorough analysis of the steps communities have taken to conduct business incubator feasibility studies. A strong, committed community can take the initial steps itself or it can contract with a commercial firm to provide the information necessary for deciding whether an incubator is feasible.

Due to the increased publicity about the incubator concept, many communities and local organizations believe they too should have an incubator. Economic development specialists knowledgeable about incubators recommend that interested organizations proceed with a project only after they have completed analysis of the market potential for an incubator. Once a community decides to proceed with an incubator project, attention must be focused on developing a project implementation strategy. The second part of Section II covers five major steps in the implementation of incubator development. It also included a guide to federal programs and private sector resources for financing a facility.

Section III of the handbook includes a series of worksheets and sample forms that can serve as guides in the development and management of an incubator facility.

Many Federal agencies have programs which could provide financing for some aspect of an incubator project. An outline of each applicable Federal program is provided with a reference to its potential application to incubators. Details of how programs could serve a specific incubator project should be discussed directly with the Agency involved.

Four private sector financing sources that potentially can be used to finance an incubator project are outlined. The sources include real estate syndications, foundations, grants, venture capital, and bank financing.

The last section of the handbook further addresses the critical issues of financing. Included in the appendix are case studies of incubator project financing.

To assess how existing incubator projects were financed, a questionnaire was sent to incubator managers. Respondents were asked to describe the sources of the financing they used to: 1) acquire, construct, or renovate their incubator facility, 2) fund the operations of the small business tenants, e.g., working capital, purchase of machinery and equipment and/or inventory, and 3) finance the day-to-day operations of the incubator facility.

These case studies are presented to help potential incubator developers become aware of the many types of financing available for development and of the on-going costs and sources of funds being used by successful incubators.

The handbook can be a working document - one that will be used in the planning and implementation process. We hope the information contained in this Handbook will assist you in creating an additional economic development tool to assist small business in your community.

THE INCUBATOR CONCEPT: ITS ROLE AND CHARACTERISTICS

Substantial information documents small business' contribution to the economy in job creation, innovation and productivity. All of the 980,000 net new jobs generated in the American economy during 1981 and 1982 came from independent small businesses. In addition, small firms and inventors are 2.4 times more productive per employee and 24 times more productive per dollar of research and development expenditure in the generation of innovation than large firms.[1]

Environmental forces, such as the growing rate of technical change, expansion and globalization of markets and increasing specialization of jobs and work skills, make it increasingly difficult for small businesses to compete. Small businesses, especially those under five years old, are often so vulnerable that a single serious mistake in purchasing, marketing, location or personnel may spell disaster. An estimated 2,000 businesses close their doors each year because of one serious error.[2] Nine out of ten small businesses fail due to management deficiencies, while research shows nine out of ten causes of failure could have been foreseen.

The small business incubator is becoming an increasingly popular economic development tool which helps improve the success rate of new firms. Typically, incubators are buildings in which a number of new or growing businesses can locate and operate at a much lower overhead cost than in conventional space where market rates prevail. Incubator facilities are characterized by access to shared, centralized services such as clerical and administrative help, receiving and shipping facilities, conference rooms, computers and word processors and other business assistance.

[1] U. S. Small Business Administration, The State of Small Business, United States Government Printing Office, Washington, D. C., 1984

[2] Clark, Thomas D., and Seik, Jo Ellen, Business Survival Skills Directory, Xavier University, 1983

The purpose of most small business incubators is to reduce small business failures by making it easier for them to survive the critical early stages of business development. This is achieved by providing inexpensive, appropriately-sized space, access to commonly-required administrative support services and access to management, financial and technical assistance. All new businesses make mistakes, but incubators give new firms "breathing room" to learn from errors that otherwise could be fatal. Valuable working capital is preserved by reduced overhead in an incubator facility. A second goal of most incubators is to 'graduate' their tenants to conventional quarters when the business is strong enough to stand on its own.

There is no one right way of developing incubators, no mandates of operation and no government programs or regulations that specifically address the concept. Many dimensions of small business incubators vary widely among individual projects and certainly new variations will be seen in the future. Incubators can be appropriate components of development strategies for urban, suburban, and rural neighborhoods; for areas of growth, stagnation, and decline and for new firms in a broad range of industries. While this makes it harder to generalize about incubators, it also provides great flexibility for local communities, development organizations, corporations and other sponsors to adapt the concept to particular local economic conditions, development needs and available resources.

The success of a new business venture cannot be guaranteed; it is determined by the marketplace. But for many small business owners, the available services and impact of an incubator can substantially increase the probability of survival. With the expansion of small firms within and beyond the incubator building itself, a local economy is strengthened, job opportunities are created and physical, economic and social benefits are achieved for the neighborhood and city. An incubator is not a cure-all for a troubled economic base, but it can be an integral part of broader economic development strategies at the local level.

While incubators differ in many ways, there are five essential areas of development and operation to consider:

- Sponsor and development objective(s)
- Building type and location
- Tenant composition (target market)
- Rent, fee, and graduation policies
- Range of support services

Sponsors and objectives

Incubator facilities have been started and operated by cities, counties, regional authorities, large corporations, small companies, universities, chambers of commerce, not-for-profit development groups and private real estate developers.

Motivations may include profit, utilization of vacant buildings, job creation, urban redevelopment, marketing outlets for sponsor products and services, general economic and business development or some combination of the above.

While many of these objectives are complementary, they also have the potential for conflict. Incubator sponsors need to define their specific goals and purposes and keep them in mind at all times.

Building types and locations

Incubators are located in depressed urban industrial environments, retail shopping strips, near universities, in industrial and science parks and in small towns far removed from metropolitan areas.

Most incubators have been established in older, renovated manufacturing or warehouse facilities. However, there are examples of incubators being located in newly constructed buildings.

The availability of appropriate existing real estate and the cost of renovations versus the cost of new construction will be one of the factors that will determine the type of facility that will be appropriate for your community.

Tenant composition (target market)

Incubator sponsors often design their facility to attract tenants in particular industries or with well-defined physical needs (e.g., wet laboratory space or a railroad spur). One popular perception is that incubators are for high technology start-ups while a large number are, many incubators are successful with occupants in manufacturing, assembly, service, wholesale and retail industries.

Most facilities use leasing criteria and screen potential tenants to suit a defined objective while some have succeeded by initially renting to anyone who could afford the rent. Several projects have included established firms in their tenant mix to provide reliable cash flow from businesses that which can afford higher rents and to help stabilize the facility during the potentially long lease-up period.

While some incubators are successful in attracting businesses from other communities, many incubators rely upon the local market for prospective tenants. This reaffirms the importance of business incubators as a tool for homegorwn economies.

Rent, fee and graduation policies

Incubator leases may be uniformly structured with a pre-determined rent structure or handled case-by-case according to an individual firm's circumstances and needs. Some sponsors take equity positions in tenant firms .

Base rent in an incubator may include utilities and a common core of services with unlimited access. Many services and business machines are provided on a fee basis so firms pay only for what they use. Incubator sponsors often price services at or below cost to minimize tenants' overhead.

The costs for rent and services are influenced by the cost of acquiring, renovating, and operating a facility and the sponsor's expected return on investment. Some public sector sponsors have subsidized a facility's operating costs thereby lowering rental costs to the tenants

Range of support services provided

An infinite number of service combinations can be offered to tenants. Most newly formed small firms do not have sufficient business to justify full-time administrative help. Sponsors can provide this centrally, including typing, stenographic, copying, mailing, shipping, phone answering and reception services.

Conference rooms, business and technical libraries, credit reports, insurance and joint purchasing arrangements can also be provided. Some incubator managers contract or arrange for professional services, consultants or other business development resources through private and public sector organizations or programs. Incubator directors should work with public officials involved in business development so tenants can be referred quickly to appropriate assistance sources.

A few incubator sponsors have Certified or Local Development Companies located in or near the building itself to provide financial assistance and counseling for tenants. While it may not be possible to institutionalize relationships with financing sources, the local financial community should be aware of the incubator project and the needs of its firms for maximum access to capital sources.

In some cases, an incubator director acts as an informal consultant for tenants, maintaining close contact with owners to monitor progress and performance. While this may not be explicitly included in the service package, the role of the director is crucial for the smooth functioning of a facility and the well-being of tenant businesses. This should be specified in advance by an incubator sponsor because it has an impact on the talents required of a director and the number of available candidates.

Decisions about the number, extent and pricing of services are also critical to an incubator's success and should be researched and discussed extensively. The service package must match the tenant composition, the financial condition of the sponsor, expected returns and overall project objectives.

THE INCUBATOR DEVELOPMENT PROCESS: STEPS FOR GETTING STARTED

STEP ONE

ESTABLISHING A WORKING GROUP

The involvement of key individuals and organizations in the community is critical to the success of an incubator, both in its formulation and implementation. No organization from outside a community can develop a successful incubator without the community's interest and support. Because of their visibility, incubators can quickly become the focal points for economic development and small business assistance.

Three levels of organizational involvement are present in the development of an incubator facility:

1. Lead sponsor organization - the initiator
2. Local working group - responsible for plans through implementation
3. Other community organizations - provide support and publicity

Lead Sponsor Organization

To complete a feasibility study or other activities related to development of an incubator, someone must initiate the project and assume leadership.

The primary duties of the initiating individual or organization consist of:

- Ensuring that the project goals are clearly stated and consistently followed
- Identifying and contacting key individuals to serve on the working group
- Convening preliminary meetings of the working group
- Overseeing collection of information for the feasibility study
- Contacting other local organizations not represented in the working group to get information for the feasibility study

The initiator will usually come from one of the following organizations:

- For-profit corporation
- Local development organization (i.e., Chamber of Commerce, 503 Company)
- Local government
- University or Community/Junior College

Local Working Group

The local working group is responsible for formulating a sound plan, reviewing it as needed and sticking with it through its implementation. The members should be decision makers in their respective organizations who can commit resources. In addition, the group should be representative of a broad range of community organizations and skills.

The primary responsibilities of the working group include:

- Completing the necessary market research.
- Gaining support for the incubator from other community organizations.
- Providing guidance and/or direct involvement in critical phases of the project's implementation.

WORKSHEET ONE provides a list of potential members for a local working group.

Potential working group members should be contacted early in the process. The first contact(s) should be with individuals who are likely to participate in the working group and who would be influential in encouraging others to get involved.

A list of individuals or organizations expressing an interest in the project should be compiled so the interested parties can be contacted later. Some members of this group may be in a position to commit financial resources to the project. If commitments cannot be secured from several key members of the community, the lead sponsoring organization should reconsider the project.

Other Community Organizations

In addition to the sponsoring organization and local working group, other organizations should be contacted to determine interest and support for an incubator. While these organizations will be involved only peripherally, their participation will strengthen the network of support available to the incubator project.

Possible contacts include:

- Influential business people (from small and large businesses)
- Key members of local government
- Representatives from organizations in the small business support network, e.g., SCORE, SBA, university/community colleges, Inventor's Council, etc

STEP TWO

DEFINE GOALS AND OVERALL OBJECTIVES

A community's economic development goals and objectives provide the driving force for the design of the incubator facility. Ideally, the objective of the incubator should fit with the community's overall economic development strategy.

It is important to reach consensus early as to why an incubator project is being developed. Agreeing on the goal of the incubator project is probably the most critical decision the working group will make. The objective chosen will, in large part, determine a) the type of tenants to be assisted, b) the location and type of facility suitable for such tenants' businesses, c) the type of financing that will be available to the project, d) the sources and technical expertise required.

Members of the community will often have different priorities for overall economic development objectives. Gaining consensus on the priorities will help leverage resources from throughout the community. In addition, defining these broad objectives will help measure progress and evaluate results of the project.

The project's purpose dictates the shape of the development. The working group should decide what it wants to accomplish before making specific decisions on a site, tenants to be assisted, market research design etc.

Worksheet two can be used as a guide to assist the working group in reaching a concensus on their primary objective.

STEP THREE

COLLECT INFORMATION ON OTHER INCUBATOR PROJECTS

Defining the overall economic goals and objectives will help organize a targeted search of information on existing incubator facilities that will match your goals and objectives. The key is to limit the research to those facilities in comparable size cities with similar objectives.

Obtaining information on different successful incubator projects will help contribute to the success of a new facility by helping the sponsoring organization avoid the common problems experienced by others.

Worksheet Three lists the type of information available on each facility and lists the sources for such information.

Printed Information on Incubator Facilities

Small Business Incubator Resource Summary. U. S. Small Business Administration, Office of Private Sector Initiatives, 1441 L Street, N.W., Suite 720A, Washington, D. C. 20416. List of written material about small business incubators.

Incubator Times. U. S. Small Business Administration, Office of Private Sector Initiatives, 1441 L Street, N. W., Suite 720A, Washington, D. C. 20416. Newsletter.

Incubators for Small Business. U. S. Small Business Administration, Office of Private Sector Initiatives, 1441 L Street, N. W., Suite 720A, Washington, D. C. 20416. Lists contacts for incubators.

Small Business Incubator Perspectives. U. S. Small Business Administration, Office of Private Sector Initiatives, 1441 L Street, N. W., Suite 720A, Washington, D. C. 20416. News clips and project summaries, 23 pp..

Small Business Incubators: A How To Guide. Community Information Exchange, National Urban Coalition. National Urban Coalition, 1120 G. Street, N. W., 9th Floor, Washington, D.C. 20005, (202) 628-2981.

Printed Information on Incubator Facilities (continued)

Business Incubator Profiles. Temali, Mihailo and Campbell, Candace. Minneapolis. Hubert H. Humphrey Institute of Public Affairs, University of Minnesota, 909 Social Sciences, 267 19th Avenue South, Minneapolis, MN 55455, (612) 376-9996. A survey of 50 business incubators for the Institute's Cooperative Community Development Program, 1984, 130 pp.

Contact Incubator Managers

After reviewing available publications, it is valuable to speak with one or more managers of incubator facilities to get their first-hand comments and suggestions. A number of incubator managers provide background information on their facility upon request, some of it for a small fee.

Visit at Least One Incubator Facility

No matter to whom you speak or what you read, you will not understand what incubators are until you actually visit a facility. While on-site, it is definitely worthwhile, if possible, to visit with some of the tenants.

Contact a For-profit Incubator Development/Consulting Firm

If a community decides to explore the feasibility of developing an incubator, but lacks the in-house expertise or time to devote to the project, it should consider contracting. There are a number of private corporations which provide assistance for the development of small business incubators.

STEP FOUR

ANALYZE LOCAL ECONOMIC BASE

Assessing the market potential of a business incubator is not a simple task. It is crucial to determine whether there are potential entrepreneurs, and markets for particular types of businesses.

To determine if a community has a market for incubator space, three major aspects of the local economy should be analyzed:

1. Characteristics of local businesses in the area.
2. Level of entrepreneurial activity in the community.
3. Supply of, and demand for, incubator-type space and support services, by industry type.

Characteristics of Local Businesses

Analyzing the characteristics of local businesses can provide a snapshot of the local economy. Examine the nature of the labor force, the major employers and major industries within the local community. This will help explain some trends of the local business community and will be helpful in deciding whether the incubator should piggyback on growing industries or redirect the business community.

Analyzing the local labor force will help determine whether local resources are available for particular types of businesses. In preparing an initial feasibility study, an overview of the local businesses will be sufficient. Worksheet Four includes some basic information that will help you conduct this analysis of the local economy.

Many communities have conducted a more detailed analysis of their major corporations and their suppliers. Perhaps more important than the findings was the process of obtaining the information and the support for the incubator project. Often the findings indicated that, to a large extent, local big businesses import a significant amount of supplies, raw materials and support services from outside the local economy. With such information, some communities have convinced large companies to buy locally, creating large and stable markets for new businesses.

In addition to providing a potential market for local small businesses, major businesses are often the community's primary source of spin-off firms. The type of industry and level of spin-off activity should be considered when deciding on the type of incubator to establish (e.g., high technology, manufacturing, services, etc.).

Worksheet Four, Part A provides a framework for analyzing the characteristics of local large corporations.

Worksheet Four, Part B is a format for gathering information on suppliers to local major companies.

Assessing Level of Entrepreneurial Activity

It is also important to assess the level of local entrepreneurial activity in a community. The rate of new business start-ups, number of business permits issued, patents issued, number of home-based businesses, etc., are indicators of potential demand for incubator type space and support. These indicators also help to identify the growing sectors of the economy - information that a sponsoring organization might use to decide what type of incubator businesses should be recruited.

Worksheet Four, Part C can be used to gather data on the level of entrepreneurial activity.

Supply and Demand for Commercial Industrial Space

The third aspect of the local economy to be examined is the real estate market. For an incubator to succeed, it must fill a market need. Therefore, the supply and demand for multi-tenant space must be carefully assessed. To determine the supply, an inventory of available commercial space should be taken.

The survey should include various local public organizations to locate any publicly owned, vacant commercial land and/or buildings. Local city and county governments, school boards or federal agencies such as the U.S. Small Business Administration and the U.S. Department of Justice should be included in the survey. A public entity acquires commercial property through the exercise of eminent domain, through foreclosures or, as in the case of a school board, the property may be publicly owned but no longer occupied. If a suitable facility is publicly owned, a sponsor may be able to negotiate a favorable sale, lease or transfer of ownership.

Private corporations should be surveyed to determine their plant use or future relocation plans. Several incubator sponsors have received buildings as a donation from a local corporation. Generally the underutilized buildings are the results of plant closings or relocations.

To be effective, the local real estate inventory should be broken down by types of commercial property (i.e., retail, manufacturing, office space) as well as by prevailing market rates. If the inventory shows the community has a glut of cheap manufacturing space, then obviously the incubator sponsor needs to look very critically at any proposal that would construct a new building for manufacturing firms.

An additional element included in the analysis is the type of lease arrangements available. Often, start-up businesses can not commit themselves to long-term leases.

The demand side of the equation is equally as important. A review of approximately fifteen incubator feasibility studies suggests that surveys and interviews of realtors, existing new small businesses, banks, local development companies, etc., can give a general indication of the level of demand in the community for incubator-type space.

Worksheet Four, Parts D and E provide a matrix to help assess the supply and demand for commercial space.

STEP FIVE

ASSESS SMALL BUSINESS SUPPORT NETWORK

It is important to examine the degree to which a community has formalized its support for small business. If a survey of the community reveals that there is a lack of formal business development programs/services offered, this should be considered when deciding whether to establish an incubator.

A Small Business Support Network includes:

- Availability of pre-business and continuing business workshops and courses, sponsored by local SCORE chapters, community or junior colleges or chambers of commerce.
- Active organizations supporting small business issues with a strong membership from the small business community.
- Availability of financing for start-up and expansion of small businesses including favorable lending policies by lending institutions, establishment of venture capital, 503, SBIC companies, etc.
- Favorable city/county/state business climate including taxation policies, ease of acquiring necessary licenses and permits, zoning restrictions, etc.
- Formal and informal, public-private programs providing specialized technical assistance, such as invention evaluation services, import/export counseling, etc.
- Community awareness of the importance of small business including whether local media covers small business issues.

Business incubators can complement and draw upon local small business support programs. Developing or strengthening an existing network of community leaders is particularly effective in leveraging resources to assist incubator tenants.

If surveys and interviews show a strong support network does exist, the information can be used to: 1) identify potential resources and support services for incubator tenants and 2) identify other local groups with similar objectives that may be valuable additions to the incubator development working group.

Surveys of the small business support network should evaluate the availability, quality and affordability of the assistance.

Worksheet Five is a sample survey to assess the strength of the small business support network.

STEP SIX

PERFORM PRELIMINARY FINANCIAL FEASIBILITY STUDY

Before developing an incubator facility a preliminary assessment of the project's financial feasibility should be conducted. Such analysis should include an:

- estimate of total project costs
- listing of available financial resources for the project

The section, "Steps for Successful Implementation", specifically addresses the details of arranging financing for business incubators.

At this stage, it would be sufficient to do a basic budget and make preliminary contacts with possible funding sources to find out funding availability and application procedures.

STEP SEVEN

A SECOND LOOK - REVIEW YOUR DATA

Analyzing the data gathered in steps 1-6 is essential for the success of an incubator project.

If the incubator development process is viewed as a continuum, a critical examination of the project should be conducted at this stage - prior to beginning actual construction and/or renovation of a facility. The incubator development process is fluid and this analysis should be conducted throughout the incubator development process.

The analysis should examine:

- major strengths and weaknesses
- gaps in information collected and/or resources identified
- strategies for gathering additional information, gaining other resources, and involving other organizations.

If it is determined that the business incubator is a viable project for the community, it would help to reassess and/or redefine the overall economic development goals and objectives. Many times, what started out as the primary reason for beginning the project may not apply and another reason may become more important.

This process will help focus the incubator project and help steer the implementation phase in the right direction.

STEP EIGHT

IDENTIFY AND SELECT A SITE AND FACILITY

An incubator site should meet the specific needs of the types of businesses to be located in the facility, (e.g., manufacturing, retail services, R&D, etc.) because each type of commercial activity has different space and location requirements. When the sponsor decides the type of commerical space that is required, a review of the real estate inventory that was prepared in Step 4 should be undertaken.

A major constraint on site selection is available funding. The majority of incubator facilities were developed using existing buildings by financing acquisition and renovation costs with public funds. There are, however, several examples of incubator projects in newly constructed facilities. Obviously, new construction requires a substantial financial commitment -- one which most economic development organizations are not in a position to make.

Other factors to be considered in the site selection process include:

- Access to major transportation routes
- Shipping and receiving areas, if required
- Adequate storage
- Adequate space for conference rooms and other "shared" space requirements
- Potential for expansion
- Local zoning laws
- Compatibility with surrounding area
- Proximity to supplies (depending on type of tenants)
- Parking (for tenants, customers, clients, etc.)
- Rental space in general area for incubator graduates
- Condition of building structure
- Estimated renovation costs
- Annual utility expenses
- Security

Worksheet Six provides a framework for listing and evaluating potential sites.

STEP NINE

DEVELOP MANAGEMENT PLAN FOR FACILITY

Successful implementation of an incubator depends on the management plan. At this stage, the following decisions are made:

- Type of organizational structure
- Need for and makeup of Board of Directors
- Daily management of facility
- Tenant selection policies
- Tenant services
- Graduation policies

Organizational Structure

A basic decision for an incubator sponsor is whether the facility will be operated as a profit or non-profit entity. Some incubators are established as a combination; developed by a non-profit organization and managed under contract by a for-profit organization.

The sponsor should investigate the advantages and disadvantages of both the non-profit and for-profit organizations.

Some of the issues are:

- The ability to obtain debt financing
- The ability to attract investors
- The ability to accept charitable or corporate contributions
- Eligibility for state and local programs
- The ability to attract universities or public sector partners
- The ability to take advantage of tax exemptions and credits
- The ability to attract interests in limited partnerships or other types of financial support

Based on the objectives of the facility, both for-profit or non-profit arrangements can be successful.

Related to the for-profit/non-profit status of the facility are decisions that effect the ownership of the real estate and equipment.

In one scenario the city government owns the land, building, and equipment and leases the property to another organization. The other organization is responsible for making improvements to convert the facility into an incubator, leasing the space, maintaining the facility and managing the facility on an ongoing basis.

The scenario is attractive for some city governments because they retain ownership of the property, enhance the revenue potential of the building (due to projected increase in taxes) and delegate the daily management of the facility.

Another scenario would have a for-profit organization build a new facility or purchase an existing structure. This benefits the for-profit because of the autonomy in renovating the facility and the capital appreciation as the building becomes revenue-producing.

While there are many different organizational approaches to establishing an incubator, it is important to keep it simple; minimizing the duplication of other business development organizations in the community. It is also important to create an organizational chart that has the capacity to grow and take full advantage of leveraging community resources.

Board of Directors

Whether called a Board of Directors, Advisory Board, or Community Board, there is usually a group of executives that oversees the operation of the incubator and lends credibility and expertise to the project.

It is important to select members for the Board who are decision makers in their professions; people who are doers (willing to "roll up their sleeves") and represent a mix of different community groups. An eight member Board of Directors might include representatives from business, labor, education, and government. The Board of Directors should be established early in the incubator development process as its support will be critical. Among the things a Board may do in the start-up phases of incubator development are:

- Identify a building that will house the incubator
- Solicit community views concerning the project
- Help explain the incubator concept to concerned citizens
- Identify prospective tenants
- Assist in obtaining funding from private sources, local, state or federal government

Responsibilities of a Board of Directors continue into the operational phases of the facility, including:

- Hiring a manager for the facility
- Developing tenant selection, graduation and other operating policies
- Reviewing tenant applications that need particular consideration
- Providing professional, managerial and technical assistance to tenant firms
- Using professional contacts to increase business opportunities for tenant firms
- Reviewing and approving major rennovations to the facility
- Preparing an annual report assessing the status of the incubator program

Daily Management

Incubators can be operated by the building owner, lessor or an outside contractor. Professional staff usually range in size from one part-time to twelve full-time staff members depending on the size of facility, number of tenants, and types of services provided through the incubator.

The basic staff of an incubator might include a director, clerical person and part-time maintenance person. Other personnel (ie., accountant, security, receptionist) are provided on an as-needed basis. As with any project, the success of the venture is only as good as the people behind it. The key player within an incubator is the incubator manager or director. This person is not only responsible for the day-to-day operations of the building but also provides tenants with needed assistance.

Specific assignments for the incubator manager may include:

- Assisting in the selection of a site
- Identifying prospective tenants
- Ensuring proper maintenance and security for the building
- Coordinating business support services

- Securing financing for facility renovations and tenant firms
- Reviewing tenant leases

Incubator practitioners look for the following in an incubator manager:

- Problem solver
- Dedication
- Contacts in business community
- Integrity
- Energetic
- Enthusiastic
- Aggressive
- Excellent communications skills
- Knowledge of business operations
- Maturity
- Goal-oriented

Tenant Selection

Tenant selection varies according to the goals of the incubator and the characteristics of the facility, especially its size.

Some incubators accept any business that can pay the rent. In most cases, there is a minimum review process that includes an assessment of the firm's financial history and its needs for space, support services and financing.

More detailed selection procedures include a staff review of an initial application, a visit to the current business location, if any, and a final review of a formal application by the Board of Directors.

Worksheet Seven is an example of a pre-application form that can be used for an initial screening of tenant firms.

Whichever process is selected, it should be fair and quick. Small businesses often need space on short notice.

Tenant Services

There are an infinite number of services that can be provided to tenant firms in an incubator.

In some cases, the services are included as part of the base rent charged to the tenants. In other cases, services are provided on an as-needed basis for a fee.

Support services can be provided by the sponsoring organization, a tenant firm, or an outside contractor. In delivering support services, it is recommended that you - - -

- begin with very basic services
- keep the services within an affordable range
- make sure the services meet the needs of tenant firms
- leverage community resources to provide the services

Exhibit 1 on the following page contains a list of support services.

EXHIBIT 1

LIST OF INCUBATOR SERVICES

Flexible space - single offices to light manufacturing space

Space design and layout assistance

Library and information center

Computer-based management education courses

Conference room(s)

Professional building management

Business planning assistance

Financial planning assistance

Accounting assistance

Telephone answering service

Secretarial/clerical services

Word processing services

Mailing and postage services

Furniture rental services

Part-time office programs

National contract discounts

Teleconferencing facilities

Group life and health insurance

Administrative billing

Day care services

Janitorial service

Reception service

Suite identification

Parking

Copying services

Telex services

Consulting services

Technology and patent searches

Technology marketing

Computer services

Seminars

Entrepreneurial club

Catering

Pick-up deliveries

Auditorium facilities

Temporary help

Notary

Shipping & receiving

Laboratory facilities

Tenant Graduation

Whether to have a graduation policy in an incubator depends totally on local preference and the goals set by the sponsor.

Graduation policies vary a great deal, depending on demand for the space among new entrepreneurs (occupancy rate); ability of the business to stand on its own and the space needs of the tenant.

Some policies are highly structured and built into the terms of the lease; others are more open-ended, and may even allow leasing to the tenant on a month-to-month basis. Standard rentals fees range from $2.00-$10.00 per square foot.

To create a disincentive to those tenants healthy enough to move on, but would rather stay, many incubator leases include a graduated rent policy. In the early stages of the lease business rents are kept low but then are increased each year until the incubator is no longer attractive to the tenant.

Whether there is a strict or open ended policy, the graduation aspect of an incubator is what separates it from a more conventional landlord/tenant relationship.

The most important aspect of graduating a tenant (or considerably deciding that the tenant is not a viable business) is doing so at the right time. Review and communication should be constant and a consistent process between the incubator manager and tenants to determine the best time for tenant graduation.

Finally, the incubator manager should take some responsibility for steering a graduating firm into an appropriate location. Space availability for growing firms should be part of the planning process, even before the incubator is operational. If a community does not have space to support graduating tenants, those businesses may locate elsewhere. Plan ahead for tenant space needs.

Lease Agreements vary depending on the organizational structure, the objectives of the center and the various parties involved in the ownership, management and financing of the facility.

The Lease Agreement shown on the following page (Exhibit 2) is just an example of an agreement and will not fit the requirements of all facilities.

Exhibit 2

SAMPLE CENTER LEASE

This LEASE is hereinafter made between (Name of Lessor) referred to as LESSOR, and (Name of Lessee), hereinafter LESSEE, for space as defined in the Attached Appendix A (building floor plan) in the (Name of Center) in accordance with the following terms and conditions:.

1. TIME: This LEASE will be for a period of ______ years, but shall be reviewed at the end of the first year, if term is for longer than one year, to determine that the company's operation is in compliance with its business plan and with the Center's policies. The parties may extend this lease by mutual agreement and agreed upon terms.

2. BUSINESS PLAN: The Lessee must follow the Business Plan submitted as part of the application to be a lessee of the Center. Failure to follow the plan will allow for unilateral termination of the LEASE by the Lessor upon notice set forth in 8 below.

3. REVIEW: The Lessee's Business Plan will be reviewed at least annually by the Center to determine the Lessee's progress and updates may be requested as determined by the Center.

4. INSURANCE AND INDEMNIFICATION: The Lessee agrees to provide insurance for all risks of loss, including fire and extended coverage insurance on all lessees equipment as well as any equipment loaned or leased to lessee by lessor and shall carry general liability insurance in amounts of at least $500,000. The policies shall name the the Lessor as a co-insured on leased or loaned equipment and general liability insurance. The Lessee agrees to notify the Lessor if any change, alteration, modification or cancellation of any such policy. The Lessee also hereby agrees to indemnify the Lessor and its officials and agents from any and all liability arising out of Lessee's operations, including any claims relating to product liability.

5. OPERATIONS: The Lessee agrees to abide by all applicable federal, state and local laws, regulations and ordinances covering its type of lease and operations and all the policies of the Center.

6. TAXES: The Lessee agrees to be responsible for all allocable property taxes, excise and franchise taxes and any other tax applicable to its operation.

7. MAINTENANCE AND REPAIR: Building maintenance and general area janitorial service will be provided by the Lessor.

8. TERMINATION: At the expiration or termination of the LEASE, the lease hold area will be returned to Lessor in good condition, reasonable wear and tear expected. The Lessor reserves the right to terminate this LEASE on thirty (30) days notice after one (1) year, if in its judgment such termination would be in the best interests of the Lessor and Lessee.

9. SIGNAGE: The Lessor must approve any interior signage the Lessee wishes to use in the premises.

10. RENTAL FEES:

    1. Monthly fee: The Lessee will pay the Lessor a monthly rental fee of __________ at a place to be designated by the Lessor.

    2. Ownership interests: Lessee agrees to grant the Lessor, ________% of Lessee's common stock. Further, (1) if the by-laws of the corporation do not include preemptive rights to future stock sales the Lessee hereby grants such rights to the Lessor; and (2) if the Lessor by assignment or transfer of such shares decides to dispose of such shares, the Lessee will have a right of first refusal to purchase such shares within thirty (30) days of notification of intention to dispose by the Lessor to the Lessee. The purchase price shall be set by negotiation between the parties based on the parties individual interests, including but not limited to the book value of the stock, appraisals contracted for and former sales. The final purchase price will be by mutual agreement between the parties. If no agreement can be reached within sixty (60) days of notification of intention to dispose to Lessee the Lessor may negotiate with another purchaser or sell on the open market.

This LEASE represents the full and entire Agreement between the parties and it may only be altered or amended by a mutually agreed to written amendment between all parties.

Dated this ______________ day of ______________, 19 _________.

LESSOR

BY: ________________________________

LESSEE

BY: ________________________________

STEP TEN

FINANCING THE INCUBATOR

There are a number of financing issues for incubators including funding for pre-development costs, for the facility and for the tenants. The largest financing concern is how to finance the development of the incubator facility. Prior to that step, however, the whole pre-development process, described in Section II "Steps for Getting Started" of this handbook, must occur. Pre-development costs vary depending on the organization sponsoring the project and the extent to which pre-development activities are done in-house. The third type of financing, that which is designed for the tenants, is largely a function of incubator policy.

The first part of this section is on financing pre-development costs. The second part discusses the basic steps to financing an incubator facility and a number of financing sources. The third part is on tenant financing and ways to accomplish it.

Pre-Development Costs

Funding incubator pre-development costs depends on the nature of the sponsoring organization. The costs incurred will include staff time, conducting a feasibility study for an incubator, and doing an incubator development plan. A community development corporation with a development staff or other local public or private organization with available professional staff may be able to provide staff time for a feasibility study. Alternatively, a consultant may be hired, which will be a cash expense. Worksheet Eight provides space to determine the different costs that will be incurred during this phase.

Potential sources of predevelopment funding include:

1. Contributions of dollars or time from local community organizations, local businesses and/or government
2. Foundation planning grants
3. U.S Department of Health and Human Services-Coordinated Discretionary Fund
4. Economic Development Administration Technical Assistance Grants
5. Community Development Block Grant Funds.

More information on these funding sources can be found in the following pages.

Facility Financing

Once a suitable site for an incubator has been identified, financing must be considered. It is necessary to acquire a building - by constructing it, purchasing it or receiving it as a donation. If using an existing building, some renovation is usually necessary. There are a number of steps to follow to determine financing needs for an incubator facility, including:

1. Determine total project development costs, including the acquisition of land and building and the costs of any renovations. (See Worksheet Nine). Be sure to include all costs of acquisition and renovation such as purchase price, professonal fees, costs incurred during construction (interest, real estate taxes, etc.) and all other applicable costs.

2. Determine available sources of both equity and debt financing. If the building has been donated, it can be used as collateral for renovation loans and other financing needs. Other sources of financial support, investor's commitments, grants from public or private organizations, donations, and other money and in-kind contributions which need not be repaid.

3. Develop a proforma statement of operating costs and revenues for three years and for a typical operating year after the building is fully leased, allowing for a reasonable vacancy rate (usually 25%) (See Finance Worksheet Seventeen). Make assumptions as necessary, being sure to note them all on the proforma. Determine net income available to repay debt and a return on investment.

Once financing needs are determined, you should consider different types of financing.

Incubators are usually some type of partnership among many interests: economic development, business associations, corporations, foundations, universities, etc. The financing will often be a public/private partnership as well. It is to the advantage of the incubator to involve both the public and private sectors.

The appendix describe some of the different incubator facilities and methods of financing.

Tenant Financing

The extent to which an incubator can assist with financing tenants is a matter of facility policy. The management should first understand what the basic options are and then determine which one(s), if any, are consistent with the types of assistance the incubator plans to offer.

Incubator tenants, like all businesses, will need equity capital and debt financing. The incubator facility management can provide financing in house or help with access to financing by promoting good working relations with the financing community. The following are some of the options incubator facility managers have in providing each kind of financing.

Debt Capital

In house:

- Set up a Revolving Loan Fund capitalized with private investment or Community Development Block Grant or other public program funds.
- Set up other types of in house loan fund

Help with Access

- Develop working relations with bankers or insurance companies.
- Be aware of all available business loan programs within the community including SBA, local government programs and state financing programs.
- Find out about available government programs and the appropriate contact person. Possibilities are CDBG, JTPA, FmHA, IRB, and state and local funds.
- Work with SBA 503 company to help graduating firms obtain long-term fixed asset financing.

After reviewing the possible ways to assist with financing, a decision must be made as to which options meet the goals of the facility in serving its tenant businesses. Among the factors influencing the decision are:

- age and type of tenant companies
- financial and management resources available to the facility
- approach to business assistance

An initial financing policy can be changed after the facility has been operating and more is known about the resources available, the needs of the tenant firms, and the reaction of the public and private financing communities to the facility.

POSSIBLE FUNDING SOURCES
A Check List

Funds for Getting Started:

1. U. S. Department of Health & Human Services-Coordinated Discretionary Fund
2. Foundation grants for planning
3. Contributions of either dollars or time from local community organizations, local businesses and/or units of local government
4. Economic Development Administration Technical Assistance Grants
5. Community Development Block Grant Funds

Financing the Facility:

1. Economic Development Administration Grant
2. Housing & Urban Development Urban Development Action Grant
3. Community Development Block Grant Funds
4. Foundation grants
5. Industrial Revenue Bonds
6. Farmer's Home Administration - Business and Industrial Loans
7. U. S. Small Business Administration Acquired Property
8. Corporate donations of facilities

Financing for Tenants:

1. U. S. Small Business Administration 7(a) Guaranteed Regular Business Loans
2. SBIC/MESBIC loans or equity investments
3. Venture capital
4. Community Development Block Grant Funds
5. Local bank loans
6. Industrial Revenue Bonds
7. Farmers Home Administration Business and Industrial Loans

Funding Incubator Operations:

1. Rental revenues
2. Foundation grant
3. Community Development Block Grant Funds
4. Federal Job Training Partnership Funds
5. Fees for services provided
6. On-going fund raising

AVAILABLE PROGRAMS FROM FUNDING INCUBATORS

The information that follows pertaining to various programs that could be utilized for small business incubators and/or the tenants of incubators was gathered from several sources.

We have tried to include the major points of the programs. However, due to continuous amendments to programs, we urge that you make contact with the individual agencies.

APPALACHIAN REGIONAL COMMISSION

Agency:

Appalachian Regional Commission

Program Title:

Jobs and Private Investment Program

Program Description:

The purpose of the program is to assist communities (city, county, or non-profit organization) with community infrastructure improvements, land acquisition, or technical assistance projects that support creation and retention of private sector jobs or stimulate private sector investments in the Appalachian Region.

Application to Incubators:

ARC grants are limited to the cost of infrastructure improvements, land acquisition, energy related building improvements or technical assistance projects.

Use of Proceeds:

ARC grants can not exceed 50 percent of the project cost. ARC funds cannot be used for general building improvements, equipment or working capital.

Eligibility Criteria:

Grants are available to eligible applicants in the 397 designated Appalachian counties where a firm private sector commitment has been made to locate or expand business if critical facilities or services are provided. Project eligibility is based upon firm job creation and retention commitments from the private sector.

Application Process:

Local Development Districts submit proposals to the designated Governor's State Alternate who determines final selection of projects to be submitted to ARC for final consideration.

Contact:

Judy Powell, ARC, 1606 Connecticut Ave., N.W., Washington, DC 20235, (202) 673-7845.

ECONOMIC DEVELOPMENT ADMINISTRATION (EDA)
U. S. Department of Commerce

Agency:

Economic Development Administration (EDA) -- U. S. Department of Commerce

Program Title:

Public Works and Development Facilities Assistance
(Title I and IV of the Public Works and Economic Development Act of 1965)

Program Description:

The purpose of the Public Works grant program is to assist communities with funding public works and development facilities that contribute to the creation or retention of private sector jobs and which reduce unemployment in the area. Such assistance is designed to help communities create stable and diversified local economies.

Application to Incubators:

To date, EDA has made grants to approximately 30 incubators. Incubators meet the stated program priorities of:

1. Creating new private sector jobs
2. Having broad community support
3. Being supported by significant private sector investment
4. Having a favorable cost per job ratio

EDA's ability to participate is subject to the Agency's level of funding.

Use of Proceeds:

EDA provides grants with maximum EDA participation normally ranging from 50 - 80 percent of the project cost. Applicants must provide the matching share. Facility acquisition and building renovation are typical uses of grant funds. Public Works Grants average about $400,000.

Eligibility Criteria:

Eligible applicants include: states, units of local government, Indian tribes, nonprofit organizations or private corporations representing EDA designated redevelopment areas.

Application Process:

Interested applicants should contact the area Economic Development Representative or the EDA Regional Office for a proposal package. EDA screens proposals before authorizing the submission of a formal application.

Contact:

State Economic Development Representative. Additional information can be obtained from Craig Smith, Director of Public Works, U.S. Department of Commerce, Economic Development Administration, 14th and Constitution Avenue, Room 7824, Washington, DC 20230.

Agency:

Economic Development Administration (EDA) -- U. S. Department of Commerce

Program Title:

Title IX. Economic Adjustment Assistance -- Long-Term Economic Deterioration (LTED)

Program Description:

The LTED program assists eligible applicants implement strategies that halt and reverse the long-term decline of their economies. Grants are made to eligible counties who use the funds to establish a Revolving Loan Fund. Once the Revolving Fund is established, loans may be made to businesses which meet local economic development objectives; example: job creation, retention, etc.

Application to Incubators:

Tenants of an incubator, located in an eligible county, may be eligible for a loan from the Revolving Loan Fund. The incubator facility would be better financed with a Public Works Grant. Basically, acquisition of land and building, machinery and equipment, leasehold improvements and/or working capital are all potentially eligible uses of loan proceeds.

Use of Proceeds:

Local authorities determine eligible uses of Revolving Loan Fund monies. LTED grants average about $500,000.

Eligibility Criteria:

To receive priority consideration for funding, an area must be experiencing at least one of three economic problems:

1. High unemployment

2. Low per capital income

3. Failure to keep pace with national economic growth trends

Application Process:

Interested applicants should contact the State Economic Development Representative for a proposal package. Project proposals are evaluated by EDA on the basis of: (1) Conformance with the evaluation criteria and (2) Availability of funds.

Contact:

State Economic Development Representative. Additional information can be obtained from Paul Dempsey, Director; Office of Economic Adjustment; U.S. Department of Commerce; Economic Development Administration; 14th and Constitution Avenue; Room 7217; Washington, DC 20230.

Special Considerations:

- Terms and interest rates are negotiable; however, the interest rate cannot be lower than four points below the prime rate.
- Funding priority is given to projects which leverage higher ratios of private investment than the required minimum ratio of two private dollars to one Revolving Loan Fund dollar.

Agency:

Economic Development Administration (EDA) -- U. S. Department of Commerce

Program Title:

Title IX. Economic Adjustment Assistance -- Sudden and Severe Economic Dislocation (SSED)

Program Description:

The SSED program assists eligible applicants respond to major job losses and other severe economic adjustment problems.

Application to Incubators:

Incubator projects located in areas which have experienced plant closings and/or similar disruptive economic events may be eligible for an SSED grant.

Use of Proceeds:

EDA provides grants with the maximum EDA participation of 75 percent of the project cost. SSED grants average about $500,000.

Eligibility Criteria:

To receive priority consideration for funding under the SSED program, an area must show actual or threatened permanent job losses. Within an SSED designated area, eligible applicants include states, local governments, Indian tribes, Community Development Corporations or nonprofit organizations determined to be representative of a redevelopment area.

Application Process:

Interested applicants should contact their state Economic Development Representative for a proposal package.

Contact:

State EDRs. List previously provided.

Special Considerations:

Priority will be given to projects in which:

1. Immediate job creation is emphasized
2. EDA assistance will be complemented by other Federal, state, local and private sector efforts
3. Cost per job created or retained is minimized

EMPLOYMENT AND TRAINING ADMINISTRATION
U. S. Department of Labor

Agency:

Employment and Training Administration -- U. S. Department of Labor

Program Title:

Federal Job Training Partnership Act (JTPA)

Program Description:

This program provides funds for training of economically disadvantaged youth and unskilled adults. Funds flow through State Labor and Job Training Agencies to local "service delivery areas." Basically, the program is delivered by units of local government (with population of 200,000 or more or a consortium of local governments whose combined population meets the 200,000 criterion) in conjunction with local Private Industry Councils (PICs).

Application to Incubators:

JTPA funds can be used to provide customized training to meet an employer's specialized needs as well as funding up to 50 percent of the wages of an employee hired under the On The Job Training Program. A community interested in initiating an incubator project should contact the local Private Industry Council on Job Training office to explore possible links between job training and small business development.

Use of Proceeds:

Typically, funds are used to subsidize On The Job Training. JTPA funds can be used to pay up to 50 percent of an individual's wages for up to 6 months. Local Service Delivery Areas (SDAs) have considerable discretion over the types of job training projects they fund.

Application Process:

Interested individuals or organizations should contact the local Private Industry Council or the State JTPA liaison.

Contact:

JTPA state liaisons, State SDA contacts and State PIC contacts.

FARMERS HOME ADMINISTRATION (FmHA)
U. S. Department of Agriculture

Agency:

Farmers Home Administration (FmHA) -- U. S. Department of Agriculture

Program Title:

Business and Industrial Guaranteed Loans

Program Description:

Business and industrial loans may be made in areas outside the boundary of a city of 50,000 or more with population density of no more than 100 persons per square mile. Priority is given to projects in open country, rural communities and towns of 25,000 and smaller. The program's goal is to improve the economic condition of rural areas. Assistance is in the form of a 90 percent guaranty (maximum) of principal and interest. The FmHA makes no direct loans.

Application to Incubators:

An individual or organization in a rural area could use a B & I guaranteed loan to finance construction, acquisition, and/or renovation of an incubator facility. Incubator tenants could use a B & I loan to finance individual operations.

Use of Proceeds:

Loan proceeds can be used for building construction, acquisition and/or renovation; purchase of land, machinery and equipment; working capital; business start up expenses and pollution control. B & I loans are for over $500,000 and can be made for up to $10 million. The agency's funds are limited. The interest rate charged is negotiated between the borrower and lender, usually at a variable rate. The term depends on the loan's purpose.

Eligibility Criteria:

Any legal entity, including individuals, public and private organizations and federally recognized Indian tribal groups, may be eligible for a guaranty.

Application Process:

Interested individuals and/or organizations should contact local lenders. The application is made by the local lender to the agency for the loan guaranty.

Contact:

Farmers Home Administration State offices.

Special Considerations:

- There is no size standard or test for other credit availability.
- A minimum of 10 percent tangible balance sheet equity is required. For new businesses, 20-25 percent equity is required.

Agency:

Farmers Home Administration (FmHA) -- U. S. Department of Agriculture

Program Title:

Community Facility Loans

Program Description:

Farmers Home Administration is authorized to make loans to develop community facilities for public use in rural areas and towns with a population of less than 20,000 people.

Application to Incubators:

A community (city, county or non-profit organization) may be able to use a Community Facility Loan to finance the cost of developing the necessary infrastructure for an incubator project (e.g., roads, sewers, etc.) prior to construction of an incubator building.

Use of Proceeds:

Community Facility Loan proceeds can be used to construct, enlarge, extend or improve fire stations, libraries, hospitals, clinics, community buildings, the infrastructure for industrial parks, roads, bridges, utilities, etc., etc.

Eligibility Criteria:

Loans are available for public entities such as municipalities, counties and special districts. Non-profit corporations may also receive loan assistance when adequate plans for repayment are made.

Application Process:

Loan applications and technical assistance may be obtained at local offices of the Farmers Home Administration.

Contact:

Farmers Home Administration state offices.

Special Considerations:

- Farmers Home Administration regards itself as a lender of last resort. Applicants must provide evidence of the unavailability of private credit.

- The interest rate charged on a Community Facility Loan depends on the median income in the community. Rates range from 7.5 percent - 10 percent.

- Average term for financing a building is 30 years; the maximum is 40 years.

OFFICE OF HUMAN DEVELOPMENT SERVICES
U. S. Department of Health and Human Services

Agency:

Office of Human Development Services --
U. S. Department of Health and Human Services

Program Title:

Coordinated Discretionary Funds Program

Program Description:

A portion of program funds are used to provide grants to projects which promote the economic self-sufficiency of the populations served by the Office of Human Development Services; the elderly, the developmentally disabled, Native Americans, and children, youth and families. One of the program's goals is to increase employment opportunities for these populations.

Application to Incubators:

A community organization, such as a Chamber of Commerce, an association of small businesses, a local development company or a private sector corporation could use grant funds to conduct a feasibility study for developing an incubator. Research would have to include an inquiry into how the incubator would meet OHDS goals such as providing an increased number of job opportunities for the population groups listed above.

Eligibility Criteria:

Grant proposals are accepted from: corporations or non-profit organizations which promote employment opportunities, e.g., Chambers of Commerce, Local Development Companies. Program requires at least 25 percent of the proposed project funding come from non-Federal sources.

Application Process:

Grant competition is held annually. Preliminary proposals are submitted in mid-October. Organizations, whose pre-applications are accepted, are invited to submit full applications. Successful proposals are funded in the third and fourth quarters of the fiscal year.

Special Considerations:

Grants average between $50,000 - $200,000. For FY 1985, OHDS anticipates it will receive 2000 requests and will fund 200 proposals.

OFFICE OF HUMAN DEVELOPMENT SERVICES
U. S. Department of Health and Human Services

Agency:

Office of Human Development Services --
Office of Community Services (OCS)

Program Title:

Community Services Block Grant Discretionary Fund

Program Priority: Urban and Rural Community Economic Development

Program Description:

The OCS has grant funds available for projects which alleviate the causes of poverty in distressed areas. The programs strived goal is to promote economic self-sufficiency through job creation. In FY 1985 approximately 20 million dollars was available for such projects. Incubators that aim at creating jobs for low income area residents would be considered for funding. FY 1986 funding levels are uncertain at this time.

Application to Incubators:

A local organization may be able to use an OCS grant to fund the construction or renovation of a facility, to fund a manager's salary, to provide business development services to tenants, or to assist in the development of a specific tenant business.

Eligibility Criteria:

Grants are awarded to non-profit corporations or public agencies engaged in local business and/or community development activities.

Application Process:

Grant applications and requirements are available from OCS. In FY 1985 the application deadline was March 29.

Special Considerations:

Matching funds are required; 2 public dollars per grant dollar and 1 private dollar per grant dollar.

Project must have a clear and direct benefit to low income individuals.

Applicants should have a strong track record in economic development.

Contact:

Mr. Joseph Reid, Program Manager/Ed Branch, Office of State and Project Assistance, Division of Discretionary Grants, 1200 19th St., N.W. - Rm. 518, Washington, DC 20506, Attn: Economic Development Branch, Phone (202) 632-6634.

Agency:

U. S. Department of Health and Human Services (HHS)

Program Title:

Community Services Block Grant (CSBG)

Program Description:

The CSBG Program provides states with funds to meet the following objectives:

1. Provide services within local areas which combat causes of poverty.
2. Provide a range of social services (health care, transportation, etc.) to the elderly poor.
3. Provide adequate emergency services in local communities characterized by higher levels of poverty.
4. Establish linkages between social service agencies to assure the efficient delivery of needed social services.
5. Encourage the involvement of private sector corporations in the community's efforts to alleviate poverty.

The CSBG is allocated annually to states which distribute funds to community action agencies/or other authorized administrative entities on a formula basis. The allocation formula is based on the percentage of the county's population which falls below the poverty line.

Application to Incubators:

Local community action agencies have considerable discretion in the projects they fund. If an incubator meets the stated objectives of the CSBG program, it may be eligible to receive CSBG funds.

Use of Proceeds:

CSBG funds are used to provide on-going community services such as emergency assistance, food distribution and/or home care. In addition to funds for continuing local programs, funding is generally available for specific projects which meet a local community objective.

Application Process:

A community organization interested in applying for CSBG funds for an incubator project should contact the state CSBG coordinator.

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

Agency:

U. S. Department of Housing and Urban Development (HUD)

Program Title:

Urban Development Action Grant (UDAG)

Program Description:

This program provides gap financing for industrial and real estate projects which leverage new private investment, create new jobs and strengthen a community's tax base. Grants are awarded on a competitive basis to eligible cities which then lend grant monies to projects.

Application to Incubators:

A UDAG could be used to help finance the acquisition, renovation and/or construction of an incubator facility. In addition, the UDAG could finance the acquisition of machinery and capital equipment wtih an expected life greater than five years for an incubator tenant.

Use of Proceeds:

UDAG monies can be used for site improvements, infrastructure, capital equipment, new construction and property rehabilitation. UDAG will not finance working capital, inventory or assets with useful life under five years. Loan terms are negotiated by the developer with members of HUD/UDAG staff. Terms are based on the financial feasibility of a project.

Eligibility Criteria:

For a current list of the eligible communities, contact the UDAG coordinator of the state HUD office.

Application Process:

A developer approaches the city or small town where the proposed project is to be built and requests the community to apply for a UDAG. The community and developer should also contact the local UDAG staff and/or state economic development office for assistance in packaging the UDAG proposal. Funds are made available on a national competitive basis with three competitions a year for small cities and three for large cities.

Contact:

HUD regional or field offices. Additional information can be obtained from Stanley Newman; Director UDAG Program, HUD room 7262, 451 7th Street, S.W.; Washington, DC 20410.

Small Cities-Under 50,000 Competition	Application must be postmarked by the last day of the month	Approximate date of announcement of Awards
FIRST	January	April 1
SECOND	May	August 1
THIRD	September	December 1
Large Cities Competition		
FIRST	November	February 1
SECOND	March	June 1
THIRD	July	October 1

All communities must be certified eligible prior to an award.

Special Considerations:

- Private sector financing must be firmly committed before a UDAG is awarded. No more than $1 of UDAG funds can be used for a project for every $2.50 of private monies. Realistically, a project needs a UDAG:private fund ratio of approximately 1.5 to be fully competitive.

- The developer and the applicant municipality must demonstrate that "but for" the award of the UDAG, the developer will not undertake the project.

- At present HUD ranks cities on a series of national economic distress factors. Seventy percent of the UDAG award is based on this ranking. Because of this system, it is difficult for many cities to be successful in the UDAG competition. At present this method is under discussion in Congress.

Agency:

U. S. Department of Housing and Urban Development (HUD)

Program Title:

Community Development Block Grant (CDBG) -- Entitlement Program

Program Description:

The program provides annual grants on a formula basis to entitled cities and counties to provide decent housing and a suitable living environment and to expand economic opportunities, principally for low and moderate-income people. Unlike the State CDBG Program, Entitlement Cities receive their "entitlement" directly from HUD. Grants are awarded to entitlement communities for a wide range of community development activities directed toward neighborhood revitalization, economic development and improved community facilities and services.

Application to Incubators:

CDBG funds are one of the most flexible economic development financing sources available. Many existing incubator projects used CDBG funds to finance the facility and/or individual incubator tenants.

Use of Proceeds:

Some specific activities that can be accomplished with block grant funds include assistance to businesses for economic development activities; acquisition of real property; relocation and demolition, rehabilitation of residential and nonresidential structures; public facilities and improvements, such as water and sewer facilities, streets, and neighborhood centers; and conversion of schools for eligible purposes. Many Entitlement Cities use CDBG funds to establish revolving loan funds for economic development loans to local small businesses.

Eligibility Criteria:

Central cities of Metropolitan Statistical Areas; other metropolitan cities with populations of at least 50,000; and qualified urban counties with populations of at least 200,000 (excluding population of entitled cities) are entitled to receive annual grants. The amount of each grant is determined by a statutory formula using several objective measures of community need, including poverty, population, housing overcrowding, age of housing and growth lag.

Application Process:

To receive its annual entitlement grant, a grantee must submit its final statement of community development objectives and projected use of funds to HUD and required certifications, including an assurance it is following a Housing Assistance Plan (HAP) approved by HUD. If the grantee submits all requirements within established deadlines, the Department makes a full grant award unless the Secretary has determined the grantee has failed to carry out its activities and its housing assistance plan in a timely manner; or has failed to carry out those activities and certifications in accordance with requirements and primary objectives of this title and other applicable laws; or lacks a continuing capacity to carry out its activities in a timely manner.

Contact:

HUD regional and field offices. Additional information can be obtained from Phyllis Amon, Community Development Specialist; HUD room 7282; 451 7th Street, S.W.; Washington, DC 20410.

Agency:

U. S. Department of Housing and Urban Development (HUD)

Program Title:

State Community Development Block Grant (CDBG) Program

Program Description:

The purpose of the State CDBG Program is to meet the same objectives as the CDBG Program to Entitlement Cities.

The eligible use of proceeds and the application to incubator projects are the same as previously discussed in the CDBG Program to Entitlement Cities. However, the major difference is the way grant funds flow. In the State CDBG Program, non-entitlement cities must apply to their respective states for grant monies.

Under the State CDBG Program, a state develops its own community development objectives, decides how to distribute funds among its communities in non-entitlement areas and ensures that recipient communities comply with applicable laws. HUD does not participate in the state's administrative decisions about recipients. States may not refuse to fund a community on the basis of the activity selected, but may develop its priorities for selecting activities.

Eligibility Criteria:

Cities and other units of local government with population's less than 50,000 are eligible to receive non-entitlement CDBG funds.

Special Considerations:

The State must ensure that, over a period selected by the State, and not to exceed three grants, not less than 5i percent of the funds are used for activities which benefit low and moderate income people. Each activity must meet one of the statutory national objectives. There must be documentation of a reasonable likelihood of creating jobs for low to moderate income people. In providing funds for incubators there is normally a requirement of a necessary and appropriate test.

Contact:

The application process for CDBG funds differs between states. Contact the State CDBG coordinator for specific state information or contact HUD's Regional Office. Additional information can be obtained from James N. Forsberg, Director of State and Small Cities Division; HUD room 7182; 451 7th Street, S.W.; Washington, DC 20410.

U. S. SMALL BUSINESS ADMINISTRATION (SBA)

Agency:

U. S. Small Business Administration (SBA)

Program Title:

Section 7(a) Regular Small Business Loans

Program Description:

The U. S. Small Business Administration (SBA) guarantees loans made by financial institutions to aid small businesses unable to obtain financing in the private credit market. The Regular Business Loan Program is the largest SBA assistance program. Through loan guarantees SBA can help small businesses finance plant construction, conversion and expansion. It also can help businesses acquire equipment, facilities, material and supplies as well as working capital. Guaranteed small business loans insure that up to 90 percent of the outstanding balance of the loan will be repaid to the lender in the event of default. The maximum guarantee cannot exceed $500,000.

Application to Incubators:

Incubator tenants may be eligible for Regular 7(a) Business Loans. However, under present guidelines, SBA may not lend money for real estate development which, in effect, precludes SBA financing the acquisition and renovation of an incubator facility.

Use of Proceeds:

An SBA guaranteed loan may be used for working capital, purchase of machinery and equipment, leasehold improvements, plant acquisition, construction or conversion.

Eligibility Criteria:

A small business must be independently owned and operated and not dominant in its field. General size requirements for various types of industries include: general construction cannot exceed an average of $17.0 million in sales for the three most recently completed fiscal years; special trade construction cannot exceed an average of $7 million in sales for the three most recently completed fiscal years; manufacturing is 500-1500 employees depending on the industry; wholesale cannot exceed 500 employees; retail size standards range between $3.5 million gross sales volumes to $13.5 million depending on the industry; services cannot exceed sales of $3.5 million to $14.5 million depending on the industry. Specific size standard information can be obtained from your SBA District Office.

Application Process:

Small businesses desiring SBA financing should talk to their local banks about obtaining an SBA guaranteed loan. In addition, interested parties can contact their local SBA office, a list of which is located on the back.

Agency:

U. S. Small Business Administration (SBA)

Program Title:

SBA Acquired Properties

Program Description:

During the business loan liquidation process, the SBA occasionally acquires commercial property. Once acquired, the agency tries to sell the property as quickly as possible to obtain maximum recovery for the Government. Under certain circumstances, the SBA can finance the sale of these properties and is able to offer a long term, fixed rate mortgage.

Application to Incubators:

If a community organization or a private developer is looking for a suitable site for an incubator project, it should contact the local SBA office to see if commercial properties are available. Several communities are exploring the possibility of purchasing an SBA property for an incubator.

Application Process:

Contact local SBA office for a list of commercial properties for sale in area.

Contact:

Local SBA office.

Agency:

U. S. Small Business Administration (SBA)

Program Title:

Small Business Investment Companies (SBICs) and Minority Enterprise Small Business Investment Companies (MESBICs)

Program Description:

SBICs and MESBICs are privately owned and operated investment companies licensed by SBA to provide "equity" or "venture" capital and long term loans to small firms. Typically, the SBIC will make an equity investment through the purchase of preferred stock. MESBICs are a type of SBIC which serves socially or economically disadvantaged entrepreneurs.

Application to Incubators:

Incubator businesses with good growth potential should contact the SBICs in their area about the possibility of raising equity capital. Like other venture capitalists, most SBICs prefer to invest in businesses with a proven track record of a few years and in firms that exhibit growth potential. It should be noted that SBICs are not limited geographically to the businesses of a certain area.

Eligibility Criteria:

Small businesses must meet SBA's size standards. Generally, firms with a net worth of $6 million or less and with gross revenues of $2.5 million or less are considered small. Contact the local SBA office about the standards for a specific industry.

Application Process:

Interested business owners should contact SBICs/MESBICs directly.

Special Considerations:

- Loans and/or equity investments cannot exceed 20 percent of the SBICs private capital; 30 percent for a MESBIC.
- Loans must carry at least a five year maturity; four years minimum term for a MESBIC.
- In 1984, SBIC loans averaged $100,000, SBIC equity investments averaged $232,000. MESBIC loans averaged $60,000 and equity investments averaged $141,000.

Agency:

U. S. Small Business Administration (SBA)

Program Title:

Certified Development Program - Section 503 (of the Small Business Act)

Program Description:

The program offers subordinated long term fixed asset financing to healthy and expanding eligible small businesses which show strong job creation potential. Financing is passed to the small business through a conduit known as a Certified Development Company (CDC), licensed by SBA. Typically, a 503 financing package consists of a first mortgage from a private sector lending institution for 50 percent of the projects costs with the CDC government-guaranteed debenture covering 40 percent of the project. The remaining 10 percent of the project cost is either equity capital injected by the small business or a third mortgage issued by the CDC. A major incentive for participation by private lenders is that they can take first position on 100 percent of the collateral while only providing 50 percent of the project financing.

No CDC debenture can be for more than 40 percent of the project costs or $500,000, whichever is less.

Application to Incubators:

Although the 503 program is a popular financing tool, its use is restricted to fixed asset financing which probably excludes most of the typical incubator tenant financing requirements. In addition, the 503 program, like the Regular 7(a) Loan Program, is prohibited from making loans to real estate developers for investment real estate projects. This regulation precludes the possibility of using the 503 or the 7(a) program to finance the incubator facility. However, CDCs should be interested in the progress of incubator firms. These firms could use 503 financing when they "graduate" from the incubator and look for suitable sites within the community.

Use of Proceeds:

SBA 503 loans are available for fixed asset purchases only. Examples: Land acquisition, building construction, renovation or expansion, machinery and equipment.

Eligibility Criteria:

A small business must meet the following guidelines:

It must be a for-profit corporation, partnership or proprietorship.

Net worth of business may not exceed $6 million and its net profit after taxes must average less than $2 million during previous two years. Alternatively a small firm is eligible if it meets the size standards for 7(a) regular business loans. Local SBA offices can provide more information on size standards.

Application Process:

Interested businesses should contact their local CDC.

Contact:

Local SBA office.

Agency:

U. S. Small Business Administration (SBA)

Program Title:

Small Business Innovation Research (SBIR)

Program Description:

The Small Business Innovation Development Act enacted in October 1982, directs that qualified small firms receive an annual percentage of research and development dollars of Federal agencies with substantial R&D budgets.

In the first year of the Small Business Innovation Research (SBIR) Program, 730 projects were funded for a total of more than $40 million.

During FY 1984, an estimated $135 million was awarded under the program. By FY 1987, SBIR funding is expected to be half a billion dollars annually.

Twelve federal agencies are currently involved in the SBIR Program, including:

- U. S. Department of Agriculture
- U. S. Department of Commerce
- U. S. Department of Defense
- U. S. Department of Education
- U. S. Department of Energy
- U. S. Department of Health and Human Services
- U. S. Department of the Interior
- U. S. Department of Transportation
- Environmental Protection Agency
- National Aeronautics and Space Administration
- National Science Foundation
- Nuclear Regulatory Commission

The Act mandates each participating agency to create a Small Business Innovation Research Program. The Small Business Administration coordinates and monitors overall program activity.

Awards are made in three phases:

Phase I:	The majority of awards are $50,000 or less and support up to half a year of effort to demonstrate the scientific and technical merit and feasibility of the innovation.
Phase II:	Firms successfully completing Phase I may be selected for Phase II funding. These awards will generally be up to a maximum of $500,000 and for up to two years to further develop the innovation. Projects with commercial potential will receive special consideration for a Phase II award.
Phase III:	Private-sector investment is required to support a project to commercialization. Projects with specific federal government application may be considered for federal funding agreements using non-SBIR funds.

Application to Incubators:

SBIR grants could be obtained by incubator tenants -- especially those in high technology fields.

Eligibility Criteria:

Any for-profit small business concern with less than 500 employees is eligible to participate in the SBIR Program.

Application Process:

Each participating agency provides SBA with its list of R&D requirements and application process which are published quarterly in a Pre-Solicitation Announcement. Copies of Announcements and forms to get on the Announcement mailing list are available from SBA district offices.

Contact:

U. S. Small Business Administration
Office of Innovation Research and Technology
1441 "L" Street, N.W.
Washington, D. C. 20416
(202) 653-7875

REAL ESTATE SYNDICATION

Real estate syndication is one way to finance acquisition and/or rehabilitation of a small business incubator. A syndication involves passive investors who seek a tax shelter and active investors who want to manage a project and receive cash flow. Generally, real estate ownership offers four primary benefits: cash flow, equity build-up, depreciation and tax credits, and appreciation (gain on sale). Syndication offers the additional benefit of allocating benefits to investors according to their needs.

The most popular form of real estate syndication is a limited partnership. Partnerships allow depreciation and tax credits to be applied against an investor's taxable income. Limited partnerships allow the investor to personally claim the tax shelter, while limiting the investor's liability and management responsibility.

A typical real estate limited partnership includes developer/general partners seeking cash flow and management responsibilities, along with a share of the net sale proceeds. Also involved will be a number of high tax bracket, passive investors who, as limited partners, seek tax credits, depreciation and a share in the net sale proceeds. To achieve this split, the partnership is generally set up with a 1 percent general partner - 99 percent limited partnership ownership split. To distribute cash flow to the general partner, he is granted a series of fees for services which diminish cash flow to the partnership while increasing flow to the general partner.

Local governments and not-for-profit groups can serve as general partners in a limited partnership formed to develop a small business incubator. Such entities don't need depreciation and tax credits, but could share in cash flow and eventual gain from the sale of property. Through careful structuring of the syndication, passive investors can be attracted to provide equity in an incubator facility. However, for the limited partnership not to be treated as a corporation by IRS, an entity such as a not-for-profit group should have substantial assets to prove it has assets at risk in terms of the general partner's liability. To be considered as having substantial net worth, a corporate general partner must have net worth of at least 15 percent of the project in which the total limited partners' capital contributions are $2.5 million or less or 10 percent on projects in which the total limited partners' capital contributions exceed $2.5 million.

The tax aspects of real estate finance are complex and technical help would be needed to syndicate an incubator project. The National Development Council offers an intensive one-week course on Real Estate Finance. Syndications are covered in the course.

For current course information,
Contact:

National Development Council
41 E. 42nd Street
New York, NY 10017
(212) 682-1106

The following source materials on real estate syndication may be helpful to incubator sponsors or developers who are investigating this financing method:

1. California Association of Realtors Blueprint for Syndicating. Los Angeles, California, 1978.
2. California Continuing Education of the Bar Private Real Property Syndications, by Jerry L. Baker and others. Berkeley, California, 1981.
3. Hussander, Martin Real Estate Syndicator's Manual and Guide. 2nd Ed., Englewood Cliffs, New Jersey, Prentice-Hall, 1979.
4. Irwin, Robert Riches in Real Estate: A Beginner's Guide to Group Investing. New York, New York, McGraw-Hill, 1981.
5. Lynn, Theodore S. and others Real Estate Limited Partnerships. New York, New York, Wiley-Interscience, 2nd Ed., 1983.
6. Miller, Daniel A. How to Invest in Real Estate Syndicates. Homewood, Illinois, Dow Jones-Irwin, 1978.
7. Mosberg, Lewis G., Jr., Ed. Public and Private Real Estate Syndicate Offerings Handbook. 3rd Ed., San Francisco, California, Property Press, 1976.
8. Practicing Law Institute Real Estate Syndications 1982. New York, New York, 1982, 2 Vol.
9. Rabkin, Jacob and Johnson, Mark H. Current Legal Forms with Tax Analysis. New York, New York, Matthew Bender, looseleaf. Mult:volume. Chapter 20-B: Partnerships and Syndications.
10. Real Estate Review Portfolio No. II: How to Syndicate Real Estate, by Alan Parisse. Boston, Massachusetts, Warren, Gorham & Lamont.

FOUNDATIONS

In certain cases, it may be possible to obtain a grant from a foundation to help finance the development of a small business incubator. University libraries usually maintain detailed information on the major foundations in the United States, including the types of projects and programs such institutions are interested in funding. An excellent source of information on foundations is The Foundation Directory. It is published annually by The Foundation Center (NY), edited by Loren Renz. The Foundation Center also publishes Foundation Fundamentals: A Guide for Grant Seekers, which provides a step-by-step guide to the funding process.

A number of foundations may have funding interests that relate to the purposes served by a small business incubator. In some cases, for a small fee, university libraries will conduct a computer search of the information they have on foundations. By using key words and phrases such as: "small business assistance," "community economic development," "helping minority businesses," "neighborhood revitalization," "jobs for the unemployed," etc., the library can pinpoint those foundations likely to have interests paralleling those of a group developing an incubator.

Before a detailed formal application is made to a foundation, a brief letter of inquiry is advisable to determine whether the Foundation's present interests and funds permit consideration of a proposal. There is usually no application form and proposals should set forth:

- Problems being addressed
- Objectives
- Detailed program for pursuing objectives
- Qualifications of persons involved
- Detailed budget
- Present means of support and status of application to other funding sources
- Internal Revenue Service classification

Applications are generally considered throughout the year and applicants may receive an initial indication within a month whether their proposals are within the foundation's program interest and budgetary limitations.

Foundation grants usually are not made for routine operating costs, programs for which substantial support from government or other sources is readily available or the construction or maintenance of buildings. In the case of small business incubators, the most likely aspects that may be funded by a foundation would include: salaries of incubator management personnel, cost of centralized office equipment, fees for professional advice and assistance for incubator tenants, marketing program costs, or the cost of some pilot or innovative feature that would facilitate the overall operation of the incubator and the success of its tenants.

VENTURE CAPITAL

Private venture capital is an important source of financing for small businesses, i.e., incubator tenants. Such financing is typically through the purchase of preferred stock. Common stock and subordinated debt are also commonly used venture capital financing vehicles.

Local organizations interested in initiating incubator development should contact the venture capital companies (as well as SBICs and MESBICs) in their areas early in the planning process. With the right type of tenants, a venture capitalist may be very interested in taking an active role in the establishment of an incubator.

Prior to making an initial inquiry, businesses interested in attracting venture capital must do some basic research on the investment interests of the venture capital companies they want to approach. Pratt's Guide to Venture Capital Sources is an excellent source of information. This guide includes a list of venture capital companies in each state, with a description of the types of businesses in which they are interested in investing.

In addition, most states have a State Association of Venture Capital Companies.

For more information about venture capital organizations in your area, contact:

Mr. Daniel Kingsley
Executive Director
National Venture Capital Association
1655 N. Ft. Myer Drive, Suite 700
Arlington, VA 22209
(703) 528-4370

The following provide additional information on the intricacies of venture capital financing.

List of Articles

"Industries Attractive to Venture Capitalists"
by E. Roe Stamps

"Pre-Startup Seed Capital"
by William R. Chandler

"Venture Financing Techniques"
by Edward F. Glassmeyer

All articles listed above appeared in the 1984 edition of Pratt's Guide to Venture Capital Sources edited by Stanley Pratt and Jane K. Morris, published by Venture Economics, Inc., 16 Laurel Avenue, Box 348, Wellesley Hills, Maine 02181.

FINANCING FOR COOPERATIVES

The National Cooperative Bank (NCB) is a private cooperatively owned financial institution and its affiliates, Consumer Cooperative Development Corporation, NCB Mortgage Corporation, CMB Funding Corporation, NCCB Leasing Corporation and Share Loan Service Corporation. NCB offers a variety of financial and technical services to businesses organized on a cooperative basis. Available services include: general business and market consultation for cooperative business development; debt financing for real estate acquisition, renovation and new construction; purchase of machinery and equipment and leasehold improvements; and financial and technical assistance for leasing plant and equipment needs.

NCB is a source of financing for incubator projects organized on a cooperative basis and other mixed-use facilities. The organization is accustomed to working with non-traditional business models and is knowledgeable about varied financial, tax and legal questions for cooperatives.

By charter, the National Cooperative Bank is limited to doing business with enterprises that:

- Operate or are chartered on a cooperative basis
- Are controlled by their members
- Have an open membership policy
- Distribute earnings not reinvested in the business to members, in proportion to patronage.

The NCB is also chartered to do business with non-cooperative enterprises that are controlled by businesses operated on a cooperative basis.

To obtain additional information on the NCB or its affiliates,
Contact:

Marsha Krassner
Assistant Vice President
National Cooperative Bank
1630 Connecticut Avenue, N. W.
Washington, D. C. 20009
(202) 745-4774

STEP ELEVEN

Developing a Marketing Strategy*

INTRODUCTION

The success of the incubator will not dependent on any innovative or revolutionary advertising ideas alone. The success of most incubator projects stems from a well managed operation that is promoted through word of mouth. Around 20 percent of potential tenants hear of incubators from local media feature stories. Advertising accounts for 15 percent of the awareness, and promotion through economic development programs accounts for 12 percent. These findings indicate why it is important to have two or three firms already in the incubator immediately upon opening and to get good coverage by the print, television and radio media.

The central goal of the marketing strategy is to do everything possible to make sure other new businesses or potential entrepreneurs in the area are aware that an incubator may soon be available and how that incubator can help improve their businesses. While this section focuses on techniques used in contacting existing businesses, some strategies should be used to attract potential entrepreneurs.

TARGET AUDIENCE AND AWARENESS

There is no specific target audience of existing businesses to which the marketing efforts for an incubator should be directed. Marketing this facility is not like marketing a consumer product to a specific customer group. The potential tenants for the incubator will come from a variety of different business areas. The few commonalities among potential tenants are:

- They are trying to do everything possible to reduce their overhead.
- They are small operations with few employees.
- They are relatively new and probably no more than two or three years old.
- They are in substandard facilities.
- As many as half of them could be closed within the next year.

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* Material in this section is taken from David S. Levy, Assistant Professor, Architecture and Planning Research Laboratory, College of Architecture and Urban Planning (The University of Michigan, 2000 Bonisteel Boulevard, Ann Arbor, Michigan 48109) page 75. Project funded by the Greater Niles Economic Development Foundation, Niles, Michigan.

In order to reach these developing businesses, a marketing strategy should incorporate a variety of techniques, some of which will overlap. This overlap is important because it reinforces the message being conveyed. In the approach to existing businesses, include print media and newspapers, brochures and posters, television, public appearances and presentations, a finder's fee program and business networks.

The targeting of new business opportunities, which could actually generate new businesses, can be more focused if a reporting system is created which would produce information about the products and services needed by existing businesses in the area.

IMPORTANT POINTS

The marketing efforts for the incubator should emphasize several points which are important to the potential tenant. Focus on the five to seven most important concerns of new businesses that an incubator can address. The number of points should be kept small so that they can be remembered, and the relationship between the business person's concerns and how the incubator can resolve them must be clear and direct. The important points include:

1. **Low overhead costs** - New businesses are typically undercapitalized and always looking for ways to cut costs. Incubators are successful at doing this because they cost less to operate and they rent space at or below market rates. Any advertising should strongly emphasize this point.

2. **A package of business services** - An important factor in overhead costs is the role of basic business services such as secretarial, photocopying, telephone answering, mailing, and bookkeeping. Each of these contributes to the cost of doing business. When they must be acquired separately by each business, they are much more expensive than when they are shared among a group of businesses. Incubators can provide these shared services at a reduced price for tenants, further reducing overhead. The marketing should emphasize that a basic package of services is available for each tenant, and that other services can be tailored to fit their needs.

3. **Space available quickly** - New businesses often need space very quickly in order to respond to business opportunities. Until the incubator reaches full capacity, there should always be a unit of space ready for occupancy. This reserve factor provides protection against not being able to meet demand. The promotional material should stress that space is available and can be occupied as quickly as the tenant can move in.

4. **Space that's the right size** - Small firms face a real estate market that is not sensitive to their needs. The buildings or the spaces available are typically larger than what is needed, and more often than not suited for small business. Incubators provide the opportunity to create units of space that correspond to the needs of the small business. Advertising materials should emphasize that the incubator has space in a variety of sizes that can be tailored to the needs of the individual business.

5. **Room to grow** - An important goal of the incubator is to produce firms that will occupy local Industrial Parks and other land and buildings. Firms moving into the incubator should know that as they prosper and grow, they have a place to move when they leave the incubator.

6. **Be with other small businesses** - Incubators provide the opportunity for a group of small businesses to locate together in one facility. This provides the owners and employers of the businesses a chance to develop relationships where they can share and discuss their problems and experiences. The tenants of incubators typically develop strong bonds because they share similar problems while trying to develop their businesses.

Strategy and Techniques

The strategy described in Exhibit 3 is designed to reach as broad an audience of potential tenants as possible. Remember that word of mouth and television, radio, and print media are the most effective ways for reaching your audience. Bearing this in mind, a six part strategy has been developed which is discussed in detail below. The major components of the strategy are: newspaper and print media, television and radio, brochures and posters, business networks, public appearances and a finders' fee program. The same strategies to reach tenant firms should be used to contact investors and providers of services to the incubator. It is important to begin promotional efforts prior to the facility opening to identify interested organizations and gain support in the community.

EXHIBIT 3

INCUBATOR MARKETING STRATEGY

Newspaper and Print Media

1. **Feature stories** on key events in the development and opening of the incubator
2. Carefully planned **advertising in the classified ads section**
3. **Newspaper insert/flyer** announcing the opening of the incubator
4. **Pooled marketing** of services and products of similar businesses

Television and Radio

1. **Feature stories** on key events placed on news shows
2. Feature stories on television and radio **magazine shows**

Brochure and Poster

1. **Management seminars** for the public on starting a business
2. **Business products/services need reporting system** to target areas of new business opportunity

Public Appearances

Slide presentation program for public appearances

Finders' Program

Finders' fee for people who refer tenants to the incubator

Newspaper and Print Media

Using print media, there are four techniques for promoting the incubator to potential tenants, and the services and products of the incubator's tenants to potential customers. These four approaches include:

1. **Feature stories** - The incubator project has already received considerable press attention in area newspapers. Feature stories on the results of feasibility studies, "groundbreaking" on the renovation, and the opening of the incubator are essential parts of the effort to raise the awareness of new businesses about the incubator. Stories should also be "placed" about tenants of the incubator that are particularly successful.

   After the incubator has been operating for 12 to 18 months, stories should be developed periodically which "report" on what has occurred over the past several months. Ideally, these stories should appear on the front page (of the local paper) or in the business section (of larger regional papers).

2. **Advertising in the classified section** - A popular and successful form of advertising used by the management of incubators is to place ads in the classified section of newspapers. The most effective times to run these ads are between February and May and September and November, thereby avoiding the major holidays and vacation times.

3. **Newspaper insert/flyer** - Assuming that the incubator becomes a reality, its opening can be announced through a simple flyer inserted into the local papers. This flyer shoud describe the nature and basic services offered by the incubator, rental costs, location, and a person to contact. The inclusion of a separate item in the newspaper would provide interested parties with a tangible piece of information which they could retain for future use.

4. **Pooled marketing** - Depending on the composition of businesses in the incubator, a pooled marketing program could be developed to advertise in selected newspapers and trade magazines. Pooled marketing involves several businesses joining together to pay for a large ad in a magazine or newspaper. Retail businesses located in identifiable areas often do the same thing by using half-page ads inviting the consumer to the shopping area (i.e., downtown, shopping centers, or malls).

Television and Radio

There are two basic approaches to be used with the television and radio media.

1. **Feature stories** - Like the newspapers, television and radio news shows are always looking for positive news items. The approach described above for newspaper feature stories should be followed for television and radio. Special emphasis should be placed on the opening of the project and the first group of tenants. The ability of television to show what the incubator is like and to display the enthusiasm of the tenants is very effective.

2. **Magazine shows** - Television magazine shows maintain large staffs who are responsible for locating feature stories for their programs. Since most of these programs are shown daily and done locally, they need an incredible number of stories to fill their time.

Brochure and Poster

The promotion of the incubator locally and to people making inquires can be supplemented with an informative brochure and a poster.

1. **Brochure** - A brochure should be developed for responding to inquiries about the incubator. The brochure should include the following items: plans of the incubator, showing the units of space, rental costs per unit, package of services provided, lease terms, location of the incubator, community resources and the person to contact.

2. **Poster** - A simple informative poster describing the incubator concept, basic services offered, location and contact person should be developed for distribution when the incubator is about to open. This poster should be distributed locally and posted in such places as building supply stores, lumberyards, hardware stores, photocopy stores, gasoline stations, government buildings and any establishments offering bulletin board space for community services.

Business Networks

The existing business networks in the community need to be kept informed of the incubator and their need to participate. There are two means by which this involvement can be obtained:

1. **Management seminars** - For example, SCORE currently provides professional advice on a one-to-one basis with small business. This activity should be supported and expanded, if possible, to include a series of public seminars on starting and managing a new business. Those attending such seminars could be potential tenants for the incubator.

2. **Small business needs** - A comprehensive survey of local businesses on the products and services needed by them should be established. The aim of this survey is to identify new business opportunities and to connect existing businesses that may have the ability to address the needs. The information should be collected at least annually.

Public Appearances

The management of the incubator should make public presentations about the project whenever possible to any interested group. A good slide presentation can be used not only for public appearances, but to show potential tenants as well.

Finders' Fee Program

Individuals who refer tenants to the incubator could receive a commission for their efforts similar to the real estate business. A program such as this should provide for a minimum time in which the tenant has remained in the facility. A flat fee should be the standard and it should be paid after the set occupancy time has been achieved. Such a program would be an incentive for professionals who could refer new business to the incubator.

A finders' fee program, however, will only be necessary at times of high vacancy. In some cases, the incubator is so popular that the facility is fully pre-leased upon opening.

WORKSHEET ONE

INCUBATOR WORKING GROUP

The following is a suggested list of participants in a local working group. The size and mixture of the group will vary from one community to another.

Local Government

_____ Mayor

_____ City Council Member

_____ City Manager

_____ Economic Development/Community Director

_____ Small Business Ombudsman

_____ Employment/Training Director

_____ Other (specify)

Private Industry

_____ Chief Executive Officer

_____ Vice President, Purchasing

_____ Vice President, Public Affairs

_____ Real Estate Developer

_____ Real Estate Broker/Leasing Agent

_____ Architect

_____ Law Firm

_____ Accounting or Management Consulting Firm

_____ Engineering Firm

_____ Construction Company

_____ Other (specify) ____________________

Financial Organizations

_____ Commercial Bank

_____ Savings and Loan

_____ Venture Capital Group

_____ Other (specify) ____________________

Local Development Organization

_____ Chamber of Commerce

_____ Local Development Corporation

_____ Industrial Development Council

_____ Private Industry Council

_____ Neighborhood Organizations

_____ Other (specify) ____________________

Community Organizations

_____ Business Organization

_____ Social Organization

_____ Community Service Organization

WORKSHEET ONE - INCUBATOR WORKING GROUP (continued)

Educational Institution

a) University

_____ President

_____ Professor of Business or Planning

_____ Director, Small Business Development Center, Small Business Institute

_____ Other (specify) ____________________

b) Community or Junior College, Vocational-Technical School

_____ President

_____ Professor of Business or Planning

_____ Director, Small Business Development Center

_____ Other (specify) ____________________

WORKSHEET TWO

ESTABLISH COMMUNITY GOALS AND OBJECTIVES

Community Economic Development Goals

Process

1. The working group should discuss and reach agreement on the community's overall economic development goals and decide how the business incubator fits within those goals.
2. Ask working group members to brainstorm a list of specific objectives which would measurably contribute toward reaching the community's goal(s). A partial list is provided below. Others may be suggested by members.
3. List all objectives submitted.
4. Prioritize the list.
5. Develop Statement of Goals and Specific Objectives.

Potential Objectives	Rank Order
1. Job creation & retention	________
2. Stimulate real estate development in specific areas	________
3. Create marketing outlets for community products and services	________
4. Expand local tax base	________
5. Enhanced community's image as a center of productivity	________
6. Fill gaps identified in local economy	________
7. Create local investment opportunities in high-growth companies	________
8. Develop a high-tech or R&D business sector in the community	________
9. Rehabilitate vacant commercial buildings	________
10. Develop local suppliers for community's major companies	________
Others ______________________________	________

WORKSHEET THREE

INFORMATION ON INCUBATOR FACILITIES

1. Name of Facility ______________________________
2. Owner of Facility ______________________________
3. Basic Objective(s) ______________________________
4. Facility Managed by ______________________________
5. Date Opened ______________________________
6. Size of Facility (sq. ft.) ______________________________
7. Number of Tenants ______________________________
8. Type of Tenants (by industry type)

   ____

   ____

9. Vacancy rate (%) ____________ after one year

   ____________ after two years

10. Number of Graduates ______________________________
11. Location of Graduates ______________________________
12. Type of Facility: New or Existing ______________________________

    Method of Acquisition ______________________________

13. Screening and Graduation Policies

    ____

    ____

14. Cost of Facility Acquisition and Renovation ____________

WORKSHEET THREE - INFORMATION ON INCUBATOR FACILITIES (continued)

15. Funding Sources ______________________________

16. Major Operating Costs ____________________________

____

17. Major Operating Revenues (rent/square foot, fees, other)

____

____

18. Support Services Provided

Service Provided	Supplier	Cost

19. Financial Assistance to Tenant Firms

Assistance	By Whom? (Organization)

20. Management and Professional Services to Tenant Firms

Service Provided	Supplier	Cost

WORKSHEET THREE - **INFORMATION ON INCUBATOR FACILITIES** (continued)

21. History of Incubator

    a. Reason for initiating project.

    b. Original working group: Representation.

    c. Major obstacles encountered. Solutions.

    d. Marketing strategy to identify tenants.

    e. Type of feasibility study done for project.

    Conducted by:______________________

    Method: ____________________________

    f. Community resources used.

    g. Continuing community response to project.

WORKSHEET FOUR

ANALYZING THE LOCAL ECONOMY

State, county or city planning departments should be able to provide community profiles for the following information. Results can be viewed as an indication of the strengths and weaknesses of the local business community and may provide a focus for the business incubator.

Who are the major employers?

What are the major industries?

Do most people work in large or small businesses?

What are the characteristics of the local labor force?

- average age
- education
- occupation type by industry
- employment by industry

WORKSHEET FOUR - PART A

ANALYZING THE LOCAL ECONOMY
Characteristics of Large Local Corporations

List major corporations in the community. Note business type, gross sales, number of employees. Indicate with yes/no: 1) if company is part of local economic development network, 2) if company has a formal small business sub-contracting program and 3) if company spawns a high number of spin-off businesses.

COMMUNITY CORPORATE PROFILE: ______________________________
(name of city/town)

Company Name	Type of Bus.	Gross Sales	No. of Employees	Part of Ec. Dev. Network	SB Sub-Cont. Program	Has high no. of spin-offs

WORKSHEET FOUR - PART B

ANALYZING THE LOCAL ECONOMY
Company Supplier Analysis

List company's major suppliers, supplier's location, product/service provided, annual dollar volume and if supplier is located outside of community.

EXAMPLE:

Company Name: ABC Company, Smithtown, CO

Supplier Name	Business Location	Outside Comm.	Prod/Serv. Provided	Annual Dollar Volume
a. XYZ Co.	Jeansboro, NE	X	sheet metal	$200,000
b. Barb's Big 8 Acctng	New York, NY	X	accounting serv.	$ 75,000
c. Mary's Janitorial Inc.	Dallas, TX	X	janitorial serv.	$ 25,000
d. Supplies Co.	Smithtown, CO	X	nuts & bolts	$ 60,000

Tabulation of Results

When the analysis of the major corporations is complete, the information can be tabulated in the format provided below. The information will provide a good indication of potential markets for new businesses in a community.

Total dollar volume of purchases from "outside" suppliers by type of products/services purchased by the major company.

EXAMPLE:

Company Name	Raw Material	Prof. Services	Other sup. Services	Manuf. Goods	Office Supplies
ABC Co.	20,000	70,000	50,000	1,000,000	60,000
MNO Co.	10,000	100,000	25,000	500,000	10,000
TOTAL	30,000	170,000	75,000	1,500,000	70,000

WORKSHEET FOUR - PART C

ANALYZING THE LOCAL ECONOMY

Assessment of Entrepreneurial Activity

The following worksheet can be used in gathering data on the level of entrepreneurial activity in a community. Results should be viewed as an indicator of potential demand for below-market space and new business support services.

DATA:	SOURCES:
Number and types of new corporations formed during last 3-5 years	Secretary of State's Office - Corporation Unit
Number and types of new start-ups	City and County records
Number and type of business permits issued	City and County records
Number and type of patents issued	U. S. Patent Office records

WORKSHEET FOUR - PART C ANALYZING THE LOCAL ECONOMY:
Assessment of Entrepreneurial Activity (continued)

DATA:	SOURCES:
Level of participation in organizations (such as inventors' councils, trade associations, home-based business or entrepreneurs clubs or groups)	Survey of appropriate local organizations
Level of attendance at prebusiness workshops and business education courses	SBA, SCORE, SBDCs, Business Schools, Chambers of Commerce
Extent of new business failures (number and type)	City, County and/or State records, Dun and Bradstreet
Number of start-up business plans being considered by local banks, 503 companies, accounting firms, attorneys and local venture capitalists	Interviews and surveys

WORKSHEET FOUR - PART D

ANALYZING THE LOCAL ECONOMY

Commercial Real Estate Supply Assessment

Type of Business	Sq. Feet Available	Range of Rent	Vacancy Rate	Range of Lease Terms
Retail				
Office Space				
Light Manuf.				
Industrial				
Warehouse				
Hi Tech Space (i.e., R&D facility labs)				

WORKSHEET FOUR - PART E

ANALYZING THE LOCAL ECONOMY

Commercial Real Estate Demand Assessment

Survey and interview results seem to work best. Ask respondents to rate on a basis of low, medium or high, the level of demand in the community for various types of commercial space. The information might be obtained by asking "how easy is it for a startup or small firm to find affordable space in this industry?"

	Retail Space	Office Space	Light Manufact. Space	Indus. Sites	High Tech R&D Facilities
Commercial Realtors					
Bankers					
503 Companies					
Venture Capitalists					
City/County Officials					
Construction Firms					
Local Econ. Dev. Organ.					
Chambers					

WORKSHEET FIVE

ASSESSING THE SMALL BUSINESS SUPPORT NETWORK

Recommended Research Method: Surveys and Interviews

QUESTIONS:	SOURCES:
Are classes on "Starting a New Business" available? By whom are they offered?	University, Community colleges, SCORE, Chamber, trade associations, existing businesses
Are there local programs providing technical assistance to small businesses? e.g., patent search and application, invention evaluation, business planning, overall management, marketing, accounting? If so, list below.	Same as above
What is the quality of the local technical assistance programs? Are they affordable to small business?	
Is there a local seed capital fund to assist businesses? Who administers it, source of funding, lending requirements?	Banks, venture capital new start-up 503 Company, Chamber city/county/state officials, SBA
Is there easy access to local, state and Federal financial assistance programs (i.e., loans, grants)	Same as above

WORKSHEET Five - ASSESSING SMALL BUSINESS SUPPORT NETWORK (continued)

QUESTIONS:	SOURCES:
Is there a service providing new businesses with information on available financial sources?	Same as above including university, community colleges, chamber
What are the general policies of local lending institutions toward small business lending, especially start-up business loans?	Same as above
Do local tax policies affect small business?	City/county officials, existing and new businesses
Does city or county have a one-stop business permit center? Are there problems/delays in getting necessary permits?	City/county officials, chamber, existing and new businesses
Does local media give adequate coverage to issues of concern to small businesses?	Same as above and local media persons
Does Chamber of Commerce membership reflect a strong commitment to small business?	Existing and new businesses, local media, city/county officials, Chamber

WORKSHEET SIX

FACILITY SITE SURVEY

Availability

LAND (for new building)

Location	Cost	Est. Cost of Building	Advantages/ Disadvantages

COMMERCIAL BUILDINGS

Location	Cost	Est. Cost of Renovation	Advantages/ Disadvantages

PUBLICLY OWNED BUILDINGS

Location	Cost	Est. Cost of Renovation	Advantages/ Disadvantages

WORKSHEET SIX - FACILITY SITE SURVEY (continued)

Evaluation

SITE ______________________________

BASIC REQUIREMENTS (of space, tenants)	**Good**	**Adequate**	**Inadequate**

SITE ______________________________

BASIC REQUIREMENTS (of space, tenants)	**Good**	**Adequate**	**Inadequate**

SITE ______________________________

BASIC REQUIREMENTS (of space, tenants)	**Good**	**Adequate**	**Inadequate**

SITE ______________________________

BASIC REQUIREMENTS (of space, tenants)	**Good**	**Adequate**	**Inadequate**

OHIO UNIVERSITY INNOVATION CENTER
PRE-APPLICATION

1. Your name, address and telephone number:

2. Is your business NEW or EXISTING?

3. Is your business a proprietorship, partnership or corporation?

4. If this is an EXISTING BUSINESS:

   How long in existence?

   Where?

   Name of business?

   Number of employees?

5. Give the name, address and telephone number of either the principal (proprietor), partners or major shareholder:

6. Briefly describe your business, its products and the market you are targeting or will target:

7. Does your company need low overhead incubator space?

8. Approximately how much space will you need?

9. How long would you like to stay in the Innovation Center?

10. Do you have special facility needs--elevator access, loading docks, high voltage, etc.?

11. Can you identify specialized equipment needs--machine tools, spectrometers, lasers, etc.?

12. Can you identify any of the following services that you would need?
Clerical ______
Accounting ______
Marketing ______
Production ______
Legal ______

13. Is your company interested in utilizing faculty, staff and students?
______

14. Do you need fixed asset financing? ______

Briefly explain ______

______

15. Initial capitalization of your business?
$0-$50,000 ______
$50,000-$100,000 ______
$100,000-$150,000 ______
$Over $150,000 ______

16. Estimated employment:
At time of occupancy? (full-time) ______ (part-time) ______
One year later? (full-time) ______ (part-time) ______

The Ohio University Innovation Center was created to foster entrepreneurial activities and to provide low-overhead incubator space and technical and business assistance to new technology-oriented companies.

Located at One President Street on the Ohio University campus, the Innovation Center also provides access to sophisticated technical equipment. Shared secretarial and accounting staff, a pool of graduate students and local labor, a large library, computer center and other facilities and support services are available.

Clients may remain in the Center for up to three years and are expected to show progress in accordance with an approved business plan. Formal application involves presentation of this plan to the Center's governing authority, chaired by Ohio University President Charles Ping and composed of three academic deans and three representatives of the business community.

This form represents only a "pre-application" and not a formal request to become a client of the Center. All information provided by the client will be kept strictly confidential.

Signature: ______ Date: ______

Title: ______

Please return to:

Dinah Adkins
Assistant to the Director
Ohio University Innovation Center
One President Street
Athens, OH 45701
Telephone: (614) 594-6682

WORKSHEET EIGHT

Funds for Getting Started

Purpose	Dollar Amount	Source
Conduct feasibility study		
Develop support organization, i.e., The Network		
Develop local economic data base		
Market research		
Financial packaging		
Recruitment of tenants		
Salary for project manager		
Publicity		
Other		

WORKSHEET NINE

Estimate Of Project Development Costs

1. Building Acquisition ______________
   Land Acquisition ______________

2. Renovation Costs

Soft costs:

Professional Fees ______________
(architect, engineers, appraisal, attorney, accountant, consultants, interior designer)

Loan Fees ______________

Construction Period Interest ______________

Utilities during construction ______________

Permit/License Fees ______________

Other Fees ______________

Total Soft Costs ______________

Hard Costs:

Building Materials ______________

Rent-up Costs:

Expenses ______________

Cleaning ______________

Utilities ______________

Other ______________

Total Rent-up Costs ______________

Total Renovation Costs ______________

Total Development Costs ______________

SAMPLE INCUBATOR FACILITIES

Incubator Facility: **Pueblo Business and Technology Center**

Address: 301 N. Main St., Pueblo, Colorado 81003

Contact: Mr. Rick Garcia, Incubator Manager,
Vice President,
Pueblo Economic Development Corporation

Phone Number: (303) 546-1133

Type of Incubator: High Tech, light manufacturing and assembly

Facility Financing Sources

Financing sources for:

Acquisition - City of Pueblo acquired the facility using General Fund monies. The City then deeded the facility to the Pueblo Economic Development Corporation.

Renovation - Economic Development Administration Grant - $924,000.
City of Pueblo - $176,000 - also from General Fund.
Total renovation cost $1.3 million.

Tenant Financing Sources

- Regular bank loans.
- Capital Ideas, Inc. is a local group which has established a low-interest loan fund for small business start-up or existing business expansion.
- County of Pueblo - Revolving loan fund for new businesses.

Operating Costs and Funding Sources

Major operating expenses:

- Salaries
- Equipment acquisition
- Maintenance

Major sources of operating capital:

- Surplus funds from the EDA grant
- Rent
- Private and public contributions helped meet the first year's operating costs, e.g., 1) Local Private Industry Council, 2) Mountain Bell, and 3) Energy Impact Grant ($43,000).

Incubator Facility: Utah Innovation Center

Address: 417 Wakara Way, Salt Lake City, Utah 84108

Contact: Mr. Brad Bertoch, Incubator Manager

Phone Number: (801) 583-4600

Type of Incubator: High Technology firms

Facility Financing Sources

Cost of building - $5 million -- 78,000 sq. ft. with 15,000 sq. ft. dedicated to incubator space

Sources for construction - All privately financed through a limited partnership.

Other costs and sources - Land is leased from University of Utah

Tenant Financing Sources

- Regular Bank loans
- Venture Capital
- Job Training Partnership Act Funds to subsidize hiring/training employees
- Seed capital from the Utah Technology Finance Corp.

Operating Costs and Funding Sources

Major operating expenses:

- Utilities
- Support services

Major sources of operating capital:

- 90 percent of expenses are covered by rent and fees for services used.
- Remaining costs are covered by private funds of the limited partnership.

Incubator Facility: **Omaha Business and Technology Center**

Address: Omaha Small Business Network, Inc.,
2505 N. 24th Street, Omaha, Nebraska 68110

Contact: Mr. James R. Thele

Phone Number: (402) 346-8262

Type of Incubator: Light manufacturing and office space for a variety of non-retail businesses. Owner of facility is a non-profit corporation headed by corporate leaders and City of Omaha.

Facility Financing Sources

Cost of Building: Acquisition and renovation cost -- $1,054,000.

Financing sources:

Corporate Donations (Equity) Contributions	$ 110,000
Industrial Development Bond (First Mortgage) 10 percent interest 30 year amortization 15 year term	680,000
Urban Development Action Grant (2nd Mortgage) 5-10 percent interest 15 year term Participation in cash flow Participation in appreciation	264,000
	$1,054,000

Tenant Financing Sources

- Regular bank loans
- SBA loans
- SBIC/MESBIC investment
- Omaha Small Business Network
- Seed Capital Fund sources include Community Development Block Grant funds and corporate donations
- Community Development Block Grant

Operating Costs and Funding Sources

Major operating expenses:

- Salaries
- Utilities
- Phone
- Janitorial
- Security

Major sources of operating capital:

- Rents
- Sale of services
- Corporate contributions

Incubator Facility: **Advanced Technology Development Center**

Address: 430 Tenth St., N. W., Atlanta, Georgia 30318

Contact: Mr. Leamon Scott, Manager,
Industrial Recruitment/Facilities

Phone Number: (404) 894-3575

Type of Incubator: High Technology firms

Facility Financing Sources

Cost of Building - $6.1 million/83,000 sq. ft.

Sources for construction - 2/3 of costs covered by direct state appropriation.

1/3 by an Industrial Revenue Bond (IRB) which will be retired from rent charged.

Tenant Financing Sources

- Regular bank loans
- SBA guaranteed loans
- Venture capital
- Small Business Innovation Research grants
- Investments from relatives
- Private placements

Operating Costs and Funding Sources

Major operating expenses:

- Staff expenses
- Utilities
- Maintenance

Major sources of operating capital:

Facility is totally state-funded with a budget of approximately $530,000 for operating expenses during current fiscal year. An additional allocation funds a portion of utility costs. Rent covers a portion of utility expenses and all debt service on the IRB.

Incubator Facility: **Bradley Industrial Site**

Address: 180 E. North St., Bradley, Illinois 60915

Contact: Mr. Jeff Bennett and/or Mr. Tony Perry

Phone Number: (815) 933-2537

Type of Incubator: Manufacturing and industrial

Facility Financing Sources

Cost of Building: $5.8 million, 800,000 sq. ft.

Financing sources for:

Acquisition - Facility donated by the Roper Corp. which had previously employed 2000 area employees.

Renovation - $250,000 (3 percent, 10 years) State of Illinois Commercial Development Assistance Grant (Community Development Block Grant funds) to City of Bradley which loaned the funds to Area Jobs Development Association, organization which operates the incubator.

Tenant Financing Sources

- Regular bank loans
- SBA guaranteed loans
- Local/State CDBG loans

Operating Costs and Funding Sources

Major operating expenses: (Annual operating budget is $175,000)

- Property tax
- Salaries
- Maintenance
- Utilities

Major sources of operating capital:

- Rent - Currently facility is 40 percent occupied (250,000 sq. ft.)

- To assist project's viability in first two years, the Roper Corp. leased back 100,000 sq. ft. Rent from Roper helped the project generate immediate cash flow. Project is now past break-even point and Roper is no longer a tenant.

Incubator Facility: St. Paul Small Business Incubator

Address: 2325 Endicott St., St. Paul, Minnesota 55114

Contact: Mr. Robert Kessler
Economic Development Specialist

Phone Number: (612) 292-1577

Type of Incubator: Start-up manufacturing, wholesale, essentially "any tech." Emphasis is on job creation.

Facility Financing Sources

Cost of Building: $550,000

Financing sources for:

Acquisition - $550,000 mortgage provided to local entrepreneur out of City's Community Development Block Grant (CDBG) Emergency Jobs Bill Funds.

Renovation -

CDBG	$50,000
Tenant rents	$21,000

Other costs and sources:

The City of St. Paul found a local entrepreneur who was already trying to develop an incubator facility but needed additional financing. The City used its funds to provide a low interest rate mortgage to the facility owner/developer in exchange for 20,000 sq. ft. for the City-sponsored incubator and for a pledge to: 1) keep rents low in the remaining space and 2) to open another incubator-type facility. The City actually channelled the funds through the local 503 company which, in turn, made the loan. The mortgage payments are made back to the 503 company.

Tenant Financing Sources

- Regular bank loans
- Private resources

Operating Costs and Funding Sources

Major operating expenses:

- Maintenance
- Utilities
- Insurance
- Trash removal
- Snow removal

Major sources of operating capital:

- Rent from the 20,000 sq. ft. incubator space.
- Although the City's space is within the facility owned by the local owner, the City is still responsible for meeting the expenses associated with its portion of the facility.

Incubator Facility: **Broome County Industrial Incubator**

Address: 109 Main Street, Johnson City, New York 13902

Contact: Mr. Robert Max, Deputy Director of Development
Broome County Industrial Development Agency

Phone Number: (607) 772-8212

Type of Incubator: Light manufacturing, services, light assembly

Facility Financing Sources

Cost of Building: $1,500,000/27,000 sq. ft.

Financing sources for:

Acquisition - Building donated by the Endicott Johnson Corp.

Renovation - $600,000 Economic Development Administration Grant
$100,000 Appalachian Regional Commission Grant

Tenant Financing Sources

- Regular bank loans
- SBA guaranteed loans
- Broome County Revolving Loan Program
- New York State Job Development Authority Loans (fixed assets)

Operating Costs and Funding Sources

Major operating expenses: (Annual fixed costs are approximately $37,000)

- Utilities
- Maintenance
- Repairs
- Insurance

Major sources of operating capital:

- Rental income - at full occupancy - $72,000
- Surplus funds are set aside for capital improvements

Incubator Facility: The New Building - "New Enterprise for Women"

Address: 119 S. Theobald St., Greenville, Mississippi 38701

Contact: Ms. Marilyn Hansell

Phone Number: (601) 335-3523

Type of Incubator: Retail, service, professional office space
All businesses are owned and operated by women

Facility Financing Sources

Cost of Building: 66,000/15,000 sq. ft.

Financing sources for:

Acquisition - Purchased with funds of community group (Mississippi Action for Community Education - MACE)

Renovation - Economic Development Administration funds - $800,000 for facility rehabilitation and training. MACE also has a commitment from Governor for Job Training Partnership Act funds for training.

Tenant Financing Sources

- Project still in recruitment phase.
- MACE has $150,000 low interest loan fund to assist high risk start-up businesses.

Operating Costs and Funding Sources

Major operating expenses: (Projected costs)

- Salaries
- Maintenance
- Taxes
- Utilities

Major sources of operating capital:

- Rent
- Fees for services
- MAC's on-going fund raising efforts

Incubator Facility:	Fulton-Carroll Center
Address:	2023 W. Carroll Avenue, Chicago, Illinois 60612
Contact:	Ms. June Lavelle
Phone Number:	(312) 421-3941
Type of Incubator:	Industrial, manufacturing

Facility Financing Sources

Cost of Building: $320,000

Financing sources for:

Acquisition - Economic Development Administration Grant - $320,000

Renovation - EDA Grant - $1.2 million rent
Rents (fund on-going renovation projects)

Tenant Financing Sources

- Regular bank loans
- SBA guaranteed loans
- Private equity investments

Operating Costs and Funding Sources

Major operating expenses: (Annual operating budget is over $500,000)

- Heat
- Property tax
- Maintenance
- Salary

Major sources of operating capital:

Project is past break-even point with

1) rental income
2) fees for services used

Incubator Facility:	Rensselaer Polytechnic Institute Incubator Center
Address:	RPI Incubator Center P. O. Box 12180, Troy, New York 12180
Contact:	Mr. Jerry Mahone
Phone Number:	(518) 266-6658
Type of Incubator:	All technology-based businesses

Facility Financing Sources

Financing sources for:

Acquisition - Rensselaer Polytechnic Institute owns facility and converted it for use as an incubator. (40,000 sq. ft.)

Renovation - Industrial Revenue Bond

Loan from New York State Urban Development Corporation

Tenant Financing Sources

- Regular Bank Loans
- SBA Guaranteed Loans
- Local/State CDBG Loans
- Venture Capital
- Private Equity Investment
- Personal resources

Operating Costs and Funding Sources

Major operating expenses:
- Salaries
- Debt Service
- Utilities

Major sources of operating capital:

- Rent
- Fees for Services

Incubator Facility: Spokane Tribal Small Business Incubator

Address: P.O. Box 100
Wellpinit, WA 99040

Contact: Mr. Keith Debus

Phone Number: (504) 258-4581

Type of Incubator: Small High Growth Firms

In January 1985, the Spokane Tribe of Indians formed a tribally-owned and chartered corporation. The corporation takes an equity position in incubator tenant businesses. Investment purposes are from the Tribes General Fund. The tribe pioneered the use of the exempt financing and can offer tenant firms below market rate financing.

Facility Financing Sources

Financing sources for:

Acquisition - Short term bank loan for new construction (10,000 sq. ft.). Debt to be retired by the Tribes General Fund.

Tenant Financing Sources

- Regular Bank Loans
- Venture Capital
- Private Equity Investment
- Personal resources
- Bureau of Indian Affairs Guaranteed Loans
- Tax Exempt Bank Financing

Operating Costs and Funding Sources

Major operating expenses:

- Salaries
- Debt Service
- Utilities

Major sources of operating capital:

- Return on Equity.

Incubator Facility: University City Science Center

Address: 3624 Market St., Philadelphia, Pennsylvania 19104

Contact: Mr. Gordon Carlisle

Phone Number: (215) 387-2255

Type of Incubator: Scientific research and related services. Primarily advanced technology.

University City Science Center is one of the oldest incubator projects in the United States and is located adjacent to two major universities and four major hospitals. It has been in operation over 20 years and now encompasses nine buildings, has 1.1 million square feet and employs over 6,000 people. It is fully occupied. Rents are approximately 25 percent below those charged in the Central Business District.

Facility Financing Sources

Financing sources for:

Construction - Eight new buildings -- State of Pennsylvania Industrial Development Authority low interest loans; Conventional financing; Equity investments; Urban Development Action Grants; Industrial Development Bonds; Real estate syndications and limited partnerships.

Acquisition - City of Philadelphia Redevelopment Authority used Federal funds to condemn and clear the 16-acre site. Land was sold at appraised value to non-profit Science Center Development group.

Renovation - One building (90.000 sq. ft.), a former printing plant; Pennsylvania Industrial Development Authority low interest loans; IRBs.

Tenant Financing Sources

- SBIR Grants
- MESBIC loans and investments
- Regular Bank Loans
- SBA Loans
- Venture Capital
- Corporation/Foundation Grants

Operating Costs and Funding Sources

Major operating expenses:

- Salaries
- Maintenance
- Utilities
- Insurance
- Taxes

Major sources of operating capital:

- Rent
- Fee for services (over 25 services are available to tenants)
- Revenue generated ($6-7 million annually) from the research arm of the Science Center operation.

Incubator Facility: **Ohio University Innovation Center**

Address: One President Street
Athens, OH 45701

Contact: Dinah Adkins
Assistant to the Director

Phone Number: (614) 594-6682

Type of Incubator: Product-oriented

Facility Financing Sources

- Regular bank loans
- SBA guaranteed loans
- Small Business Innovation grants
- State grants
- Private investors

Tenant Financing Sources

- Regular Bank Loans
- SBA guaranteed loans
- Small Business Innovation Research grants
- State grants
- Private investors

Operating Costs and Funding Sources

Major operating expenses:

- Salaries
- Renovation costs
- Equipment

Major sources of operating capital:

Facility is funded through a special line item appropriation in the State budget. The department is allocated $187,000 per year for operating and renovation expenses. Utility costs are absorbed by the University.

Incubator Facility: The Flint Industrial Village for Enterprise (FIVE)

Address: 2712 N. Saginaw Street
Flint, MI 48503

Contact: Ms. Kay Cole, General Manager

Phone Number: (313) 235-5555

Type of Incubator: Manufacturing, service and Office based businesses. Emphasis on job creation for minority and low income groups 71,000 sq. ft. with space for 35/40 businesses and 300 jobs.

Facility Financing Sources

Cost of acquisition	$ 875,000
Cost of renovation	$ 1,200,000
Financing charges	
Fees and Operating Costs	$ 955,000
	$ 3,030,000

Financing Sources

C.S. Mott Foundation	$ 1,100,000
City of Flint UDAG	650,000
Private donation	250,000
Bank Mortgage	800,000
Flint Community Dev. Corporation	50,000
City of Flint	180,000
	$ 3,030,000

NOTE: The Flint Community Development Corporation (FCDC) received a grant from the Charles Stewart Mott Foundation and a private donation as a non-profit 501(c)(3). This money was then lent to a wholly owned, for-profit subsidiary (Durant IV Building Inc.) who will own and operate the facility. Durant IV Building Inc. received the UDAG loan (via the City of Flint) and negotiated the loans from a local bank and the City.

Tenant Financing Sources

- Regular Bank Loans
- SBA Loans or Guarantees
- SBIC/MESBIC investments
- Community Development Block Grant
- City of Flint EDA REvolving Loan Fund
- Geneesse County EDA Revolving Loan Fund
- J.T.P.A. Training Grants
- Local Seed Capital Fund is planned

Operating Costs and Funding Sources

Major operating expenses:

- Management Team (Job Creation Limited)
- Security
- Property Taxes
- Utilities
- Janitorial
- Maintenance of Building and Car Park

Major Sources of Operating Capital

- Original Funding
- Rents (market rates $6/7 sq. ft. offices & $3/4 sq. ft. Industrial)
- Common Area Maintenance Charge ($2.00 sq. ft.)

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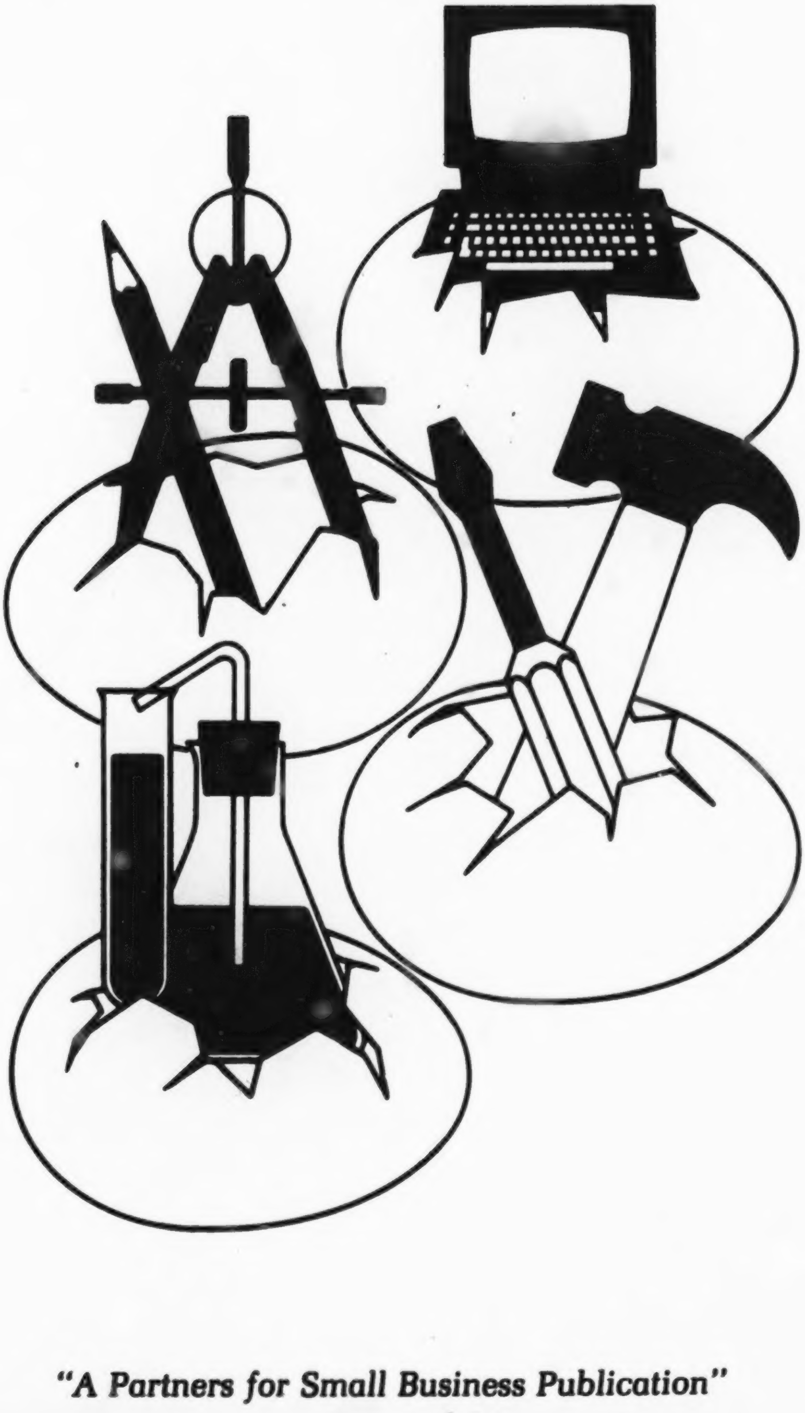
U.S. Small Business Administration
Office of Private Sector Initiatives

SBA Small Business Incubator
Perspectives



"A Partners for Small Business Publication"

PERSPECTIVES ON SMALL BUSINESS INCUBATORS

Incubators are an increasingly popular tool for economic and business development. They can assist new small businesses with early development problems by offering:

- physical space in flexibile units at affordable prices and favorable terms,
- equipment and services on a shared-cost basis,
- access to management and/or financial assistance programs.

Incubators vary as much as communities and businesses. There is no formula for incubators: no one way to do it. In some ways, an incubator is a concept that many communities have embraced and used to _their_ best advantage. The concept can be adapted to many situations - urban, suburban, rural, declining economy, growing economy, high tech businesses, light manufacturing firms, all tech businesses, and so on.

The success of incubators is linked to people - the general manager, the developer, the sponsor, the mayor, and others. It is because of their tenacity and vision that this concept becomes an economic reality.

The following articles provide a sense of what incubators are all about. They are reprints of articles published in _Incubator Times_, the incubator newsletter of the Office of Private Sector Initiatives. The articles are drawn from interviews with facility managers, tenants, and the different groups which sponsored the facilities.

After you have read about incubators in the words of those who have done it, we recommend you visit one or more incubators. Only then can you really see the excitement and energy that is generated by a lot of entrepreneurs under one roof.

Good luck. Together we can do it.

Innovators in the Field

Sam Chauncey, President of the New Haven Science Park, talks with Samantha Silva about developing incubators as part of a wider strategy for the Park.

What is New Haven Science Park?

We're a nonprofit corporation founded by Yale, Olin Corporation and the City of New Haven. Science Park Development Corporation is 3 years old. Science Park is 80 acres. This incubator is 65,000 square feet and at the end of this month we'll open another building with 200,000 square feet. In 18 months we've had 64 companies, four failures, six expansions and two mergers.

The park itself is going to have three components: two incubator centers, individual buildings for established companies, and space available for any incubator firm that grows up into a big corporation and needs a bigger space.

Will the incubators support themselves?

Yes, if they're full. We'll continue to run deficits for about four more years. Eventually the income from the real estate venture will cover our operating costs. We probably won't take equity in the firms. We might invest in them and have the equity go back into a revolving venture capital fund. We wouldn't take an equity position that would leave us in the complex position of being both the landlord and the investor. You wonder whether you would treat companies equitably when you thought one was going to fail and one was going to succeed. Any extra money would be reinvested in training programs or in the Park itself. Conceivably, if we get really wealthy, we'll set up some seed funds for our companies.

Has the investment been public or private?

Both. The biggest investment was Olin's. You're sitting in a conservatively estimated $3 million building and somebody walked up to me and said, "It's yours, take it." That's a huge private investment. Second, Yale is giving us land, support services, and we have state and city money to renovate, to do parking lots, and to subsidize our operating costs. We're seeking federal money as well. Ultimately this will be a genuine public-private partnership working through a private, non-profit corporation.

What are you working toward? What are your goals?

We are trying to develop a very large incubator center that will house roughly 200 companies. Our motivation is not to be the largest incubator. We're trying to look at a large enough population, as any scientist would, to assess what entrepreneurs need, what entrepreneurism means. I don't think anyone in the United States, including me, understands what's going on with the entrepreneurial explosion. The only way to find out is to have a large enough population to draw some conclusions. We're still providing what we *think* they need. Now we have to examine what they really *do* need.

We *have* learned that there clearly is a role for incubators in the entrepreneurial process. Exactly what that role should be, how much tender loving care you should give—that needs to be examined in more detail. But we opened this place with practically no advertising and we got 60 companies. We must be offering something that is needed in the entrepreneurial world.

What is the role of incubators in economic development?

In the broadest spectrum, our nation can no longer depend on its traditional industrial base—steel and automobiles. Other nations are doing these things better. If you buy that asssumption then you have to say that either there will be new giant industries or there will be a mixture of some giants and some new small businesses. Whichever you believe, the new giants *and* new industries are going to come out of incubators. New companies will be more and more likely to go to incubators than to be like Hewlett-Packard and come out of a garage. The next HP is going to come out of a place like this. If a person has a choice between working in an incubator or out of their garage, they're bound to pick the incubator. It's madness to do otherwise. You walk around this building and they'll tell you they're so relieved to be out of their homes, where the kids were getting in the way, they had to drive to one place to get their typing, another for copying, somewhere else for banking. They're here, centralized, and that's the way it should be. None of them would ever consider going back.

Finally, there's a time bomb here. If we don't develop policies for fostering and incubating new businesses, other countries will. Other governments are supporting the incubation of small business in a much greater way than our government. We've got to be thinking about the businesses of tomorrow and how we foster their growth, because the old method isn't going to work.

Henry Ford could tough it out and produce a car in the late 19th century, but it can't be that way now. Henry Ford didn't have any competition. He had all the time he needed. He didn't have to worry about whether the French or the Germans were going to produce cars and put him out of business. He just made his cars and he was the only guy in the marketplace so people bought them. Now, if other people can make computers or widgets faster and better, we'll be second rate.

We *do* have to worry about the public policy question. How is the government going to respond to the incubator movement? How is the government going to respond to small business, to entrepreneurial business? Those are very important national questions. And it will be very hard for states and municipalities to respond until they know what the federal government is going to do.

What if the federal government does not intervene to support incubators?

Nobody in this country has ever had more good luck, good fortune and chance than we have. Olin gave us all this land, we've got a great university nearby, the state's given us money, the city had given us money. On the other hand we *are* struggling, financially and otherwise. If the federal government doesn't help us out, we will probably still succeed, but how many others can succeed without the chances we've had? There must be a federal policy. I just can't believe that this country would miss the opportunity to spawn what are going to be the great industries of tomorrow.

What about economic development and job creation on the local level?

Creating new jobs is incredibly complex as to when a new job is a new job and when is it an old job. In 18 months there are 400 new people working here. We've got 110 minorities, 95 of whom came from this area that we're focusing on (Dixwell/Newhallville). Those are all new jobs. If every one of them were only earning $10,000, that's 900,000 new dollars spinning around that community and since every dollar creates another dollar, that's a lot of money.

What things can you do to make the local community feel vested in this project?

The single most important thing is to create jobs. You can spend all the time you want talking about participation and trees and beautiful streets, but what people in a depressed urban community want is a job. That will be our primary focus.

Secondly, in both human terms and in property terms, a depressed urban community needs a sense of value. The people need to feel that they are valued and that their property is valued. The first thing we did here was build a *very* expensive building to impress on the neighborhood that there is value here.

In terms of human value, you have to say, "I respect you." When we started widening the street we called personally every single house on that street to explain what was happening and that if there was a problem, "please call me, here's my name, home phone number, and we'll take care of your problem." There's still a ring of skepticism in their voices, they wonder whether it will work.

What are you doing in job training?

We're doing two things. One is called the RCEE Business Training Program and it's run in great part because IBM has contributed a great deal of equipment and staff time. It's a 16 week training course in word processing. We're training people almost all of whom are minority, and a very high percentage of women. The happy side is that virtually all of the graduates have jobs. There's also a smaller training program we've started, a job corp, that's aimed at the 18–24 year old to expose them to some basic skills. It's clear that we must be training people for new industries as well as old.

So the main focus is job creation and job training. Subordinate to that is creating economic value by improving the value of their property. Secondly, human value by saying, "Look, you are people worthy of respect, worthy of jobs, and if we're going to chop up your front yard, we're going to come and talk to you about it first."

Corporations are beginning to express more interest in incubators. Is this a growing trend?

The Olin experience teaches you a whole lot. First, their motivation was to do something with the site because they were going to leave. They were a company with a conscience and they didn't want to just walk away and abandon it. Secondly, they invested in our first and our largest incubator company, so they've taken a piece of the action. Third, Olin has three divisions still remaining here, and many of those people think their work will be enhanced being here in the Park with other scientists and businessmen.

I don't think there's any question at all that if the 100 largest U.S. corporations each gave an old building for use as an incubator center, it would do more for the entrepreneurial explosion in this country than anything I can think of.

Steve Szygenda, President and CEO of Rubicon Group, Ltd., talks about founding and operating a 15,000 square foot, high-technology, privately-sponsored incubator.

Innovators in the Field

How did Rubicon come about?

When I sold my last company to COMSAT, I figured I'd just start another company. Then I thought why not two or three? And then I figured if I had to build a total corporate organization, it could probably support ten to fifteen small companies.

What is Rubicon's goal?

Our goal is to up the hit rate of start-ups and decrease the time necessary to do it. We're also committed to build their management teams, develop a marketing strategy and market for them—to do everything for them in the first two years, but not to do it in such a fashion that once they leave the incubator they collapse.

We've implemented an Entrepreneurial Management Training Program, in-house, for 19 months, eight hours a month, to cover all aspects of managing emerging businesses—not in an attempt to make anybody a CPA or MBA, but in an attempt to make them knowledgable enough to work with these people.

Who provides the management assistance and training?

Mostly outside professionals—"Big 8" accounting firms, banks and law firms. Everything is donated or provided at a minimal cost. We realized that major corporations will give a great deal for the future because they see potential clients. We also have fifteen outside specialists—premiere individuals—people on the National Academy of Engineering, National Academy of Science. I said, "How would you like to help these emerging companies for equity only?" We pay them nothing. This way, if the companies succeed it's a big hit, if not, they get nothing.

What were your biggest concerns about starting Rubicon?

One concern was whether there were enough ideas in Austin? Well, there are more than enough. One of our biggest problems is trying to review these applications. Another question was, would they accept our deal? My deals are not negotiable. I come up with what we feel is the best deal we can make. The last thing I want is a three month negotiation for 5% equity that costs us a year and a half of hard feelings to get going. I wanted the relationship to start off right. If the marriage starts off wrong, it never gets any better. And every proposal we've made has been accepted.

Another question is at what stage we would get the companies. We anticipated getting start-ups and nothing else. But to date, every company we've brought in has already had a product on the street and some have existed for as long as two years.

But they're running into all the problems we're designed to take care of. They don't know anything about marketing—they don't want to do it. Administratively, they're swamped. And they spend lots of time with attorneys and accountants, and they're saying, "Hey, we don't want to do this."

How do the companies interface with each other?

We wanted an R & D type of environment—a graduate school environment, where you work closely with other students on projects and tasks. In another environment they have to come up with virtually every technical breakthrough on their own. We wanted to accelerate the whole process because there's no need for it to take as long as it's taking. So we have weekly technical seminars to create a technical synergism. They talk about what they're doing, their problems and accomplishments. And an expert from another company may say, "Hey, I've done that before, here's how you do it." So you can save months of time.

What's your financial relationship with the constituent companies?

It's simple. Everything is paid for. The companies don't pay us back for services. It's a divergence from most shared resource incubators. We provide them with everything they need to get a product: space, telephones, computing facilities, supplies, the whole bit—just like they were coming in to work in a company. Once they start marketing a product, they can contract back with us or some other group to do the marketing and pay for that out of sales. So theoretically, they should never have any of their own funds in this thing at all, or any outside funds. We've got everything covered.

Everybody's working virtually on poverty wages. All the officers are making basically the same salary, which is minimal. I didn't want a bright young engineer at a local company deciding, "I'm going to Rubicon to start a company—they're going to pay me a salary and I'll own half of it." Then they're not hungry enough; it's not the entrepreneurial spirit. That's a guy who figures you're a soft touch. So we provide a loan draw for salaries, or anything they want. The loan is a corporate loan unsecured, so we're not going to take their house or their kids. On the other hand it is an obligation. It has to be repaid. These people take it very seriously.

Can you describe the typical deal? What would be the typical equity position?

We try to go about 50-50 because then it's a true partnership. If we own 80%, it isn't much of a partnership. On the other hand if it's a company in the very early stages, just an idea or something, then we're going to go for a much bigger equity position. The bigger the risk, the more percentage we'll take. They're realizing that 50% of something big is much better than 100% of nothing, and that's hard. When I started my business in 1973, I wouldn't have done it. But I spent half of my time learning how to manage a business. I reflect back and think that it was a great education, but I could have missed the market window, I could have gotten frustrated and given up. And I could have negotiated a better deal when I sold the company if I knew what I know now.

"It began as whiskey talk and has taken three years to travel from dream to reality. Its directors include some of the most illustrious names in the city. Today it's a landmark on Austin's and perhaps Texas' high-technology frontier. It is Rubicon."

From Texas Business

Do you have management control over the firms?

Whatever equity position we have, we do not take management responsibility for the corporation. They are the managing partner, even if we have 75% of the company, which means they can tell us that they don't want to do something; we do not dictate policy.

The only provision is that if we can prove they're not running the company based on acceptable business practices, then we have some right to step in.

Do you accept companies based on their business plans?

We don't even want to see a business plan. We do some market research and talk to some people, but we invest in the people—people and ideas. Before it ever gets serious, we're comfortable with the people.

We come up with a consensus business plan for each of the companies after they come in, with a five year strategic outlook and a two year operational plan which also tells us what we're going to need for them in two years: a second round of financing, whether to go public, whether to just spin them out in their own facilities, what kind of management team they'll need, what type of sales staff.

What are you looking for in a company?

Rubicon has its own strategic plan to distribute our risk over a number of technical areas and potential sizes. And we look for their technical ability and their determination to do it. I ask them straight out, "How many venture capitalists have you gone to and been turned down by?" If the guy says he hasn't gone to any, then I get a little nervous. It shows perseverance if he keeps going. The other thing is the product area. I can't specifically say what I ask for. A lot of it is gut feeling.

How do you and your staff work with the firms?

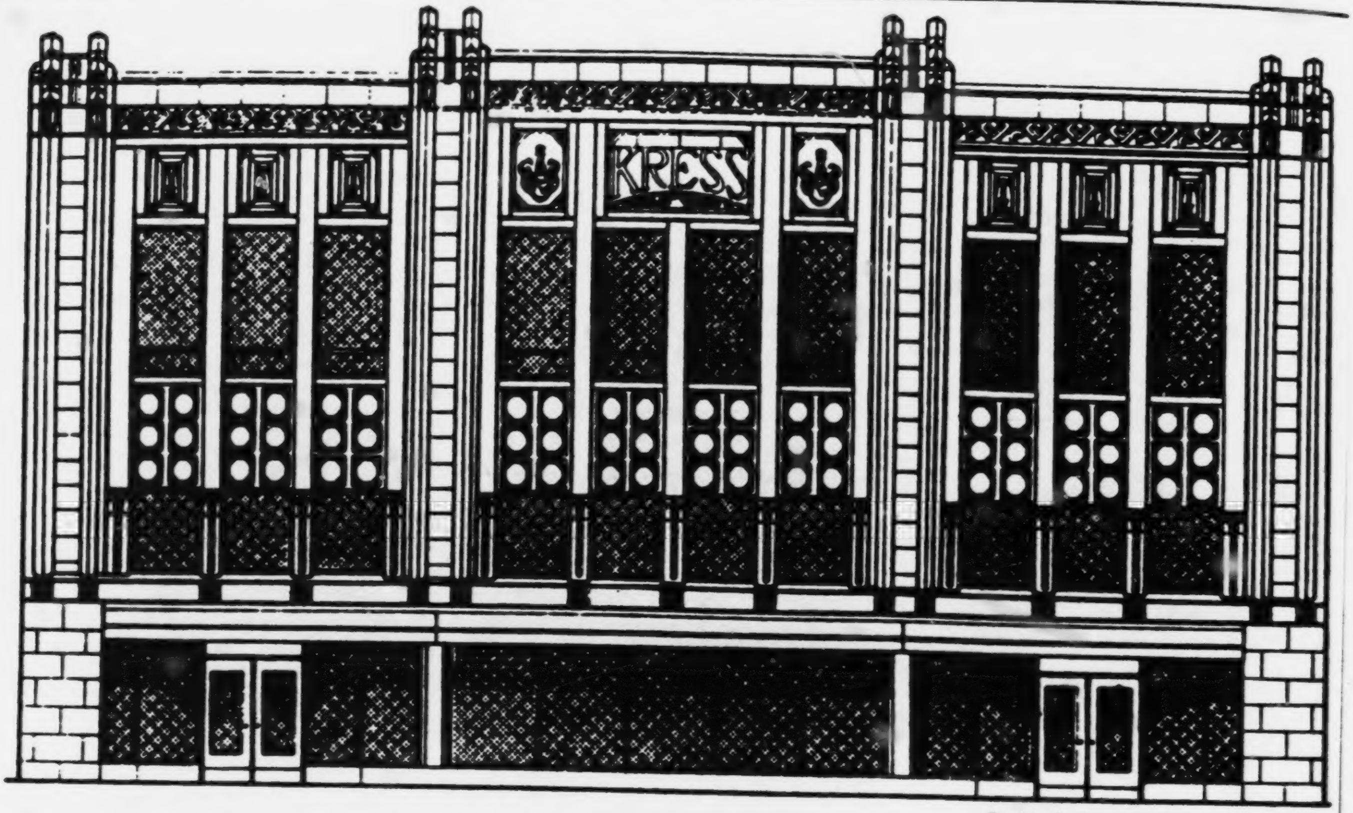
We designate a champion for each company. For instance, one of the responsibilities of my VP of Engineering is to be the champion of several of the companies. I get around and talk to them—that's meaningful time. I know what's going on in all the businesses, get weekly updates, review all the plans, sit in on presentations. I wish I had more time personally, but when everything else fails, you go to your champion.

Do you consider yourself a venture capitalist?

No, absolutely not. That's why we call ourselves a venture partnership—because we don't just fund business plans. We're doing some things that are very strange compared to venture capitalists and that's why they don't look at us as competition. In many cases they see us as complementary—a form of pre-venture capital.

Venture capitalists often put a fantastic investment in pulling companies out of trouble. We're putting the investment up front, so they don't get in trouble to start with. I invite venture capitalists to meet with the companies quarterly, and keep in touch with them. And when it comes time we'll make sure the companies get the best offer, as opposed to the company going hat in hand to venture capitalists.

Venture capitalists can't put a corporate shell on every idea that comes by. So we're serving a segment of the small business community that nobody else is serving—a massive groundswell of entrepreneurial spirit that has nowhere to go.



Pueblo Business and Technology Center

Innovators in the Field

Dick Greenberg, former President of the Pueblo Economic Development Corporation, is currently a private consultant to small businesses. He talked with Samantha Silva about setting up a small business incubator in Pueblo, which operates as a Business & Technology Center under license from Control Data Corporation.

What is the economic setting in Pueblo?

Pueblo is an Eastern steel mill town stuck out in the Rocky Mountains that got hit like steel mill towns everywhere. Unemployment went up to 20%. The community, because steel had never gotten into trouble before, was stable and fairly complacent. We hadn't organized for economic development or been aggressive in trying to attract growth. It was a dirty steel town with union problems, so when the growth in the rest of the state started, Pueblo was never considered a site for that to happen.

How is the incubator part of an overall economic development strategy?

Pueblo has high unemployment, lacks economic diversification and exports its young people, who leave because there are no opportunities here. But you can't sit down and come up with a long term solution while people are poverty stricken and hungry. So we have a short term industrial attraction program to give us the quickest way to bring jobs into the community. The incubator will have its real impact in five or seven years. It's a long term component aimed more at diversification than at immediate job creation. It's also a way for us to back into high tech, to bring down some guys who will start the next big high tech company in Pueblo so that five years from now I don't have to go and chase their expansion. We're willing to make the investment in a long term strategy because we have an effective short term strategy too.

Can the BTC stand alone?

The BTC is part of a job creation network and does not stand alone. The BTC's success is measured not by how leased up we are, but by how successful those tenants are. It would be much more valuable to do a business assistance network without a BTC than a BTC without a business assistance network.

How is this different from just a real estate project?

A good real estate project can help the local economy, but there's no guarantee that it will contribute to your community goals. If you've got debt to retire and profit to make, then there's pressure to accept tenants without looking real hard at them. With a publicly subsidized project and no debt to retire, you can turn away tenants if they compete locally. You try to create a situation where you're not slicing an existing pie into thinner slices, but dealing with a bigger pie. A company that comes in whose business reaches outside of the local market brings in new money, and we don't care whom they compete with in that case. But if you get an accounting firm that's only working in Pueblo County, and we bring in another one and subsidize them very heavily, the first guys are faced with a situation that's really unfair. If I'm doing this as a private real estate project, then that's not a consideration. But when I'm using a substantial amount of public money and we're trying to increase the size of the local economy rather than change the distribution of income, then we have to look at that.

Will you grow your own businesses, or will they come from outside?

The entrepreneurs we have in Pueblo aren't spin-offs out of high-tech, rapid growth industries, because they don't exist here. We have good entrepreneurs here, but we want to diversify our local economy. I would not go to a neighboring community in Southern Colorado and try to get their new businesses. They have their own problems. But high growth communities are never going to miss the entrepreneurs that we take away from them. Our message to the entrepreneur is that if you come to Pueblo you're going to have an entire community that's organized toward making you successful.

Do you expect graduating firms to relocate in the Pueblo area?

We don't put any strings on them. I would not expect anybody to stay here only out of gratitude that we got them started. The community's going to have a continuing challenge to maintain an environment to keep those people. And that's the way it should be.

When you started the project, who were the skeptics and what did they say?

The Chamber members, business leaders and our local politicians got so fired up about this thing, that the skeptics did their mumbling in dark corners. The week after we had our strategy report presented, there were people walking around with buttons that say, "I have small business fever." It got generated out of nowhere.

What are you doing for seed and venture capital?

Our seed capital fund is run by a private, for profit organization. The money that's been raised is from individual investors, but we're in the process of structuring a public offering so that the entire community can participate through small investments. We'll have to modify Colorado law in a minor way to do it. I think we'll raise between one and two million. It's not really attached to the incubator, but it's a resource we can send people to. And the incubator is a resource for them. When they take a equity investment in a company, if that company locates in the BTC, it's a much stronger investment. We don't want to do venture capital at this point or operate like a technical venture capital company. We want to avoid the limitations that say you've got to be in computers or pharmaceuticals or something with rapid growth. We think there's lots of potential for businesses that aren't very sexy. Once we get somebody ready for venture capital we can find a source for them.

What are you doing for the displaced workers in the community?

We have a grant that we'll offer for the next three years from EDA. Anybody who comes into this facility and hires displaced workers gets a 15% rent reduction for each displaced worker hired, up to 90%. So the guy who rents our basement could hire 6 displaced workers and rent that space for 85¢ a square foot. The key is to tie our displaced workers into our emerging businesses at the earliest possible stage.

Why did Mountain Bell support the BTC with a $30,000 grant?

Mountain Bell wanted to make a substantial investment because they made some business decisions that had a negative impact on the community in terms of jobs. They wanted to increase their contribution and we asked them to lump it into a one year period, the year we started the BTC. They got a tremendous amount of visibility out of that. They also made a substantial and meaningful investment in the community, which is very important to them as a future market.

How important is the community psychology to the success of this project?

It's critical. There are a lot of other communities in the Rocky Mountains that don't want any more growth. Pueblo can offer entrepreneurs a supportive environment to do business in. If not, we'd have a very rough time.

This building was an eyesore on Main Street. We have two or three visitors a day who walk in just to look at the building itself. The community knows that because of public funding they're very much a part of it. It's something to be proud of. If it were a private investment they would say, "Did you see what so and so did." But as the Pueblo BTC, it's more, "Look what we did."

January 1985
Incubator Times

Tass Pauli, Director of Enterprise Programs for Control Data Worldtech, Inc., talks about working with communities to develop job creation networks and incubators. Pauli was a Control Data representative on the Pueblo Business & Technology Center project.

What assets does a community need for you to go with a project?

First thing you look for is community leadership—for movers and shakers who can corral public and private support, like the mayor or city manager, or a strong commitment expressed by some of the key leaders—the chamber, the banks. Say you're an economic development person coming to me and you'd like to build an incubator. You've got a piece of land and think you can work a deal. Are you really interested in small businesses? What's the objective of your project? Do you have public and private support? What do the bankers think? Have you studied the economics of the local area? Do you have an economic development strategy? Are you a voice in the wilderness, or do you represent some key people? You go through that process to find out how much meat is in the proposed incubator project.

Do communities expect incubators to be a panacea?

Many people do. They're most interested in the BTC, because that's something they can touch, see, feel; it's the icon. But we don't deliver the BTC unless there is a support network that's going to make it succeed. Our job is to create that.

First thing you do when you come to town is address the issue that they've got to change their focus. They've been concentrating on chasing smokestacks or smokeless industries. It's a quick fix to unemployment and jobs. But they have to make small business formation a top priority in their economic development strategy. I start off saying to community leaders, "You're probably thinking there are no entrepreneurs in this town, that there's no seed money, and that it won't work here. Too many turfs. The mayor and the city manager don't get along, or what have you." I tell them the process bridges turfs, bridges the fiefdom of individual structures in the community. It draws out the feeling of contributing to the community's future welfare.

So what's in it for Control Data?

Initially we're paid for the consulting services and the BTC license. We're in the consulting business. We're also in the technology transfer business—transferring technology to new businesses, which ultimately create jobs. In the long run we have other products and services we can deliver to the community for job creation.

Control Data is famous as a pioneer in corporate social responsibility. Is there some of that too?

Bad term, corporate social reponsibility. That's the buzzword when you talk about contributions. This is more than that. It's a corporate strategy of meeting society's needs as profitable business opportunities. There is no giveaway. There's a quid pro quo.

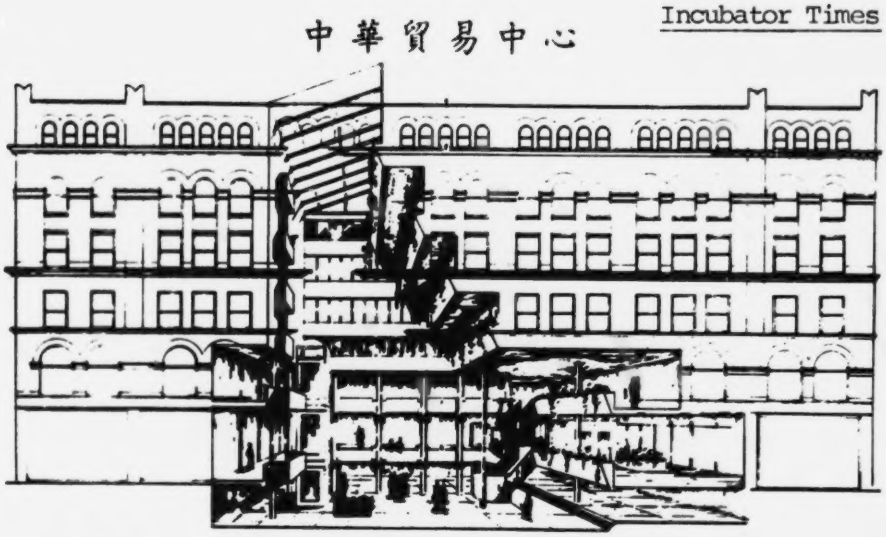
If you work with a community and set up a BTC do they become more sophisticated in the process?

Definitely. Technology tranfer is a transfer of method and process—knowledge transfer. We could be in the business of selling incubators but that's not going to solve the condition. Our job is to transfer the process for local ownership.

What was your approach in Pueblo?

We worked with an ad hoc committee of four or five people representing education, industry and entrepreneurs. We presented a plan of action to the leading figures of the town that said, here's what's wrong, and they all knew it, here's what you have to do and here's who's responsible. You need a seed capital fund, a cooperation office, a closer tie with the education institutions, and we think you've got the resources to do it. We created, with their help, a small business fever.

Boston's Chinatown: Variations on an Incubator Theme



With the growth of the incubator movement across the country, more and more projects are springing up that don't fit the original mold. Take the Boylston Building, smack in the middle of Boston's Chinatown, red light district and "combat zone." Now in the early stages of construction, it will not be a traditional urban incubator, conceived for a dying neighborhood where businesses rarely begin, much less succeed. Instead, this neighborhood and its abundance of Asian entrepreneurs are concerned about space for new entrepreneurs and about preventing encroachment by Boston's bigger business districts. The "China Trade Center" will provide that much needed space and help preserve a Chinese entrepreneurial tradition in a 100 year old community.

Bob Leigh, of the Chinese Economic Development Council (CEDC), is a prime mover in the project. He talks about their plans with animated gestures and a certain restlessness. "This place goes 24 hours a day, seven days a week. You don't shut down on weekends because that's when all the suburban Chinese come in. The need for expansion space for Chinese businesses is fantastic. There's a current influx of Asians and second and third generation people who want to start their own businesses but they need space. They need space in Chinatown."

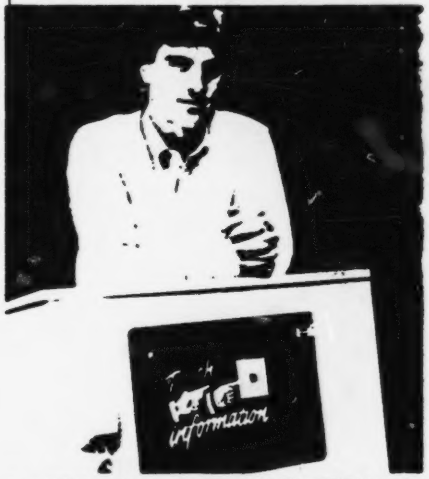
In a complex development deal, CEDC sold the building to the Bay Group, a private developer and $9 million partner in the deal. CEDC kept title to the land and contributed $2 million to the project. CEDC and the Bay Group will function as co-managers. With a $1.3 million Urban Development Action Grant and Industrial Revenue Bonds, the total financing was cheap enough to keep rents low.

The Boylston building, on the National Register of Historic Places, has 6 floors and a basement, 15,000 square feet per floor. This first three floors will be an arcade of restaurants and retail shops, 80% of which will be Asian owned. The rest of the building will be office space, also targeted for Asian entrepreneurs.

What will be its impact on Chinatown? Bob Leigh expects the project eventually to be self-supporting. It will mean at least 300 jobs for Asians and will keep the CEDC alive by generating funds and support for other development projects. The anticipation is great for when the "China Trade Center" opens its doors this time next year.

March 1985
Incubator Times

A Tenant's Perspective



Lex Richardson, owner of LEXITECH, talks about being an entrepreneur tenant in a Science Park incubator.

What effect does being in the incubator have on you as a small business owner? How does it change the way you do business?

An entrepreneur needs to be alone, thinking out ideas. There's sort of a paradox. Entrepreneurs thrive on loneliness and isolation, yet at Science Park you have lots of entrepreneurs and different people with all kinds of experience. So when I have an idea, a plan or a new ad, I can show it to somebody immediately, across the hall or downstairs. There's a lot of interaction, in fact some of the companies have merged with each other. There's a natural synergy that occurs that you wouldn't get operating out of a basement.

The other aspect when you're an entrepreneur in the early start-up period is that you're only accountable to yourself and maybe a shareholder or two. Being around other entrepreneurs you develop a sense of discipline; it forces you to be a little more professional. And there's a sense of competition.

What services and consultants do you take advantage of?

Initially there was a lot of interaction with Sam Chauncey, who's a real pro and who has a lot of experience. Now there are a lot of people coming in to advise me. The sad part is that you learn from other people's failures. There are people here who've gotten money from venture capital, banks, the state and the feds, and in about ten minutes I can walk around and ask which worked. So there are shortcuts. The main thing is bringing a critical mass of entrepreneurs together.

I use the phone, I use the copy center, I attended an educational series. I haven't used the consultants because I use the Science Park staff a lot. I have used an attorney and the meeting space.

Are there any drawbacks to being in the incubator?

Yes, bringing clients here is tough at this stage. Some get a kick out of the ancient building and the former gun factory, and there are others who only respect Class A space.

The other thing is the marketplace in New Haven. To have a successful incubator, you have to be near a university, but you have to be near the market, and New Haven is weak on that unless you're in a health care related business. You want to be close to your lead customers. Fortunately, Connecticut is a small state.

What is your goal as an entrepreneur?

Our goal is to grow to have 25 people at this location and eventually to have offices in each of the cities we work in. Being a service business, we'll probably never have thousands of people working here.

January 1985
Incubator Times

A Small Business Incubator By Any Other Name . . .

It's a community center, an art gallery, a place for dance and theater, but by any other name it is still a small business incubator. The Minneapolis Technology Enterprise Center (MTEC) officially opened its doors in October, a refurbished 1924 high school, with 175,000 square feet and already 36 tenants.

It is the newest and perhaps the most shining addition to the Technology Centers International (TCI) network—a chain of small business centers around the country begun three years ago by Loren Schultz, President of TCI. There are currently six centers, with four more expected next year.

The building was an unused high school until TCI bought it from the School Board for $400,000 and with a total investment of about $2.2 million, was able to transform classroom space into 100 business spaces. TCI collaborated with community groups and neighborhood associations, who decided the building should be a community and arts center, and all agreed that the concept could be merged with a technology incubator. The Center is based on a community consensus and is a source of pride for all involved.

Schultz, and MTEC partners Jan DeZeeuw and Terry Hitchcock, are proud of the "total environment" they've created for entrepreneurial development, including an impressive list of 24 advisors from leading companies in the area, whom Schultz calls "the guardian angels of the entrepreneurs."

Governor Rudy Perpich, who joined the opening, said, "The arts provide the kind of balance we want in our schools and that people look for in their personal lives. We need to soften technology with the lightness of art and dance that we see here."

The tenants include companies involved in medical imaging, acoustics research, hazardous chemical removal, computerized electroplating, cardiovascular device development, language training and media consulting; down the hall you'll find the Minnesota Institute for Legal Education, the Institute for Minnesota Archaeology, the Minnesota Ballet, Nancy Hauser Dance Studio, and a gifted sculptor. To Terry Hitchcock, "When you walk in you feel the energy, the excitement that comes from people who have a dream."

Hitchcock, a futurist, is the author of the best-selling *American Business: The Last Hurrah*. He and De Zeeuw are the principal advisors for the tenants. De Zeeuw will manage the facility and do technology counseling; Hitchcock will help develop business plans and manage the seed capital fund, raised through companies and individuals.

The "high school" image has become a favorite metaphor for what the facility is all about. Governor Perpich explained, "This building's purpose was and still is to provide the tools for learning. Today we have the same goals—to give the tools to young businesses to move ahead with their dreams."

And for Schultz, who dismisses the need for a stiff incubator graduation policy, "They'll move out when they want to. No one wants to stay in high school forever."

Take a 60 year old, unused high school building, add a jovial Dutch entrepreneur and his best-selling author, throw in some fledgling high-tech firms, several dance schools and a sculpture studio, and you've got some idea of what the Minneapolis Technology Enterprise Center is all about.
From Citybusiness

May 1985
Incubator Times

Innovators in the Field

There is much to learn from the diversity of experience in incubator development around the country, in small and large towns alike. Here are a few success stories from rural and small towns that have turned incubators into an "appropriate technology" for their local economies, creating jobs, businesses and opportunity.

Monmouth, Illinois

Monmouth, Illinois is a town of 10,000 in Western Illinois, currently renovating an 84,000 square foot incubator (former hardware store). The project, begun with technical assistance from Control Data Corporation, expects to house between 25-30 businesses, including service businesses, assembly and light manufacturing. Bill Maloney, the Control Data representative on the project, admits he had to sell the idea. "Economic development to a small town means getting the big hit — a monster development comes in or the price of corn goes up. When they think of small business, they think of retail."

But he sees more small towns jumping on the entrepreneurial bandwagon. In this case, the Illinois Department of Commerce and Community Affairs, developing a proactive incubator program, challenged Control Data to work with three small Illinois towns, between 10,000 and 45,000, to develop incubators. According to Maloney, you have to have state support for such an endeavor, but the most important thing is community support. Maloney came in as an outsider and had to establish credibility with every important person in the town, particularly the Mayor, who has been instrumental in the project's success. "Eventually they take you in," he says.

Once the leadership has accepted the idea, you begin an education and motivation process, to get the community excited and involved.

Kay Titchenal, manager of the Monmouth project, says it is a typical town in many ways but that it worked in Monmouth because, "We were forward looking — not the blase, 'tomorrow will take care of itself' kind of people." She also mentions the excitement of government leaders and the business community and says in some ways it may be more positive in a rural area because you have the attention and support you need. In a stroke of fundraising genius, the "Join Our Business Search" (JOBS) was organized to recruit door to door pledges of support for the incubator project. Run much like a United Way campaign, the community pledged $210,000. According to Titchenal, "Everyone has an interest in the facility."

What are the project goals? "We feel the economic pressures that everyone feels," says Titchenal. "We're interested in new jobs, but we won't give an unfair advantage to anyone competing with a business in town." They also will not offer below market space because, "You'd put every other landlord out of business."

According to both Titchenal and Maloney, you have to look for some combination of local entrepreneurs and people from the outside who may want to start to relocate a business. Maloney recommends looking at businesses that can serve more than just the local market, bringing new wealth into the community. Among the tenants already identified are an agribusiness, with a newfangled covering for bales of hay (which just got its first order from Florida); an electronics business which would have left town; one "fella" who has had it with Chicago living, and an inventor with a patent on a new product.

Maloney says you need to find businesses that can start anywhere, like a mail order catalogue business. "There are an amazing number of entrepreneurs that emerge from the community," says Maloney. Others you have to recruit by turning negatives into positives. You talk about the quality of life, the cost advantages, housing, schools, and the crime rate.

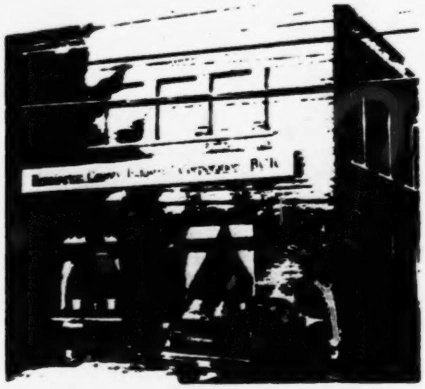
Titchenal envisions an incubator that doubles as a kind of community center, where groups and individuals can feel part of the project they have pledged to support.

Bennington, Vermont

John Williamson speaks softly and surely about developing small business incubators. He already has one project, in Bennington, Vermont, under his belt, and has moved on to Springfield, Massachusetts, as President of the Springfield Economic Development Corporation, to recreate the magic.

Bennington, Vermont is a rural community of about 16,000 that filled a 240,000 square foot incubator. As the Director of the Economic Development Corporation there, John Williamson was, among other things, manager of the facility. He did everything from recruit tenants, make sure the oil was ordered, keep the boilers in repair, the elevators in service, supervise the maintenance staff and develop the operating budget, to pay off the loan.

What does Williamson think of incubator development in a smaller-sized community? "It might be easier to do a rural incubator because there's less competition for space. There aren't going to be alot of multi-tenant buildings. But it should be near a large metropolitan area. If you don't have an airport nearby, etc., it will be really tough. So many small towns operate in a vacuum. But another advantage is that Vermont is a small area with a small amount of government. You can cut through the red tape pretty easily."



Is there a market in a rural area? "We didn't have any trouble. You have to attract some tenants from outside the community, just like attracting an industry to build its own plant. Bennington is 30 minutes from the second best engineering school in the U.S. — Rensselaer Polytechnic Institute, which has a well known incubator where you have to apply for admission to get in. Within ten years companies will move to Bennington as spin-offs from RPI — people who want to be close to RPI, but not in New York. You look for people who want to be in a rural setting, where they can take their kids and spouse and have a nice quality of life and go skiing."

Some argue that a small town doesn't always have the sophisticated economic development structure needed for incubator development? Williamson agrees. "You've got to have it. You can't just have an incubator. You have to know where those people will go when they outgrow the incubator. Bennington had three graduates that all stayed in the community, in previously vacant manufacturing buildings — buildings that had been empty for up to four years."

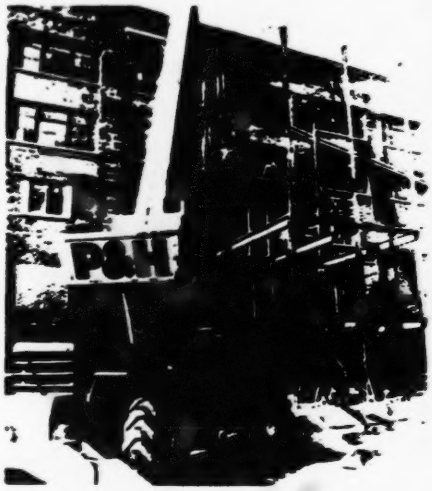
According to Williamson, when you run out of space you build a "spec" building. "In the incubator you've got a captive audience that looks to you for advice as to where they should go. You can steer them right into another building."

Rolla, Missouri

Rolla is a town of 13,000 in south central Missouri. It boasts of a research university campus and one of the country's first rural high-tech incubators. Incubator experience suggests that a high-tech facility is tough to do in a non-metropolitan setting. The Rolla experience defies the assumption that it can't be done adequately in a rural setting.

In October, 1983, the University of Missouri at Rolla won a Small Business Innovation Research Grant from the U.S. Department of Agriculture to look at the feasibility of incubating high-tech companies in a rural setting. They looked principally at the potential pool of entrepreneurs in a non-metropolitan setting with a research-oriented university, including professors, alumni, people attracted to the research and development facilities, community entrepreneurs, and others attracted to Rolla's quality of life. They found that most high-tech entrepreneurs made location decisions based on quality of life and traditional industrial considerations (taxes, cost of space, etc.). Furthermore, the most likely market for entrepreneurs in such a setting would come from university alumni and professors.

The study inspired the Rolla incubator, which is expected over the long term to enhance product development and new industries in the Rolla area. The project is part of a State of Missouri funded program to develop four innovation centers. The Rolla incubator has space for 3-6 high-tech businesses.



Don Myers, Science Advisor to Governor Ashcroft of Missouri and a prime mover in the Rolla project, illustrated the kinds of entrepreneurs the incubator is attracting. "We have one company headed by a college professor and a recent graduate with a ceramic engineering degree. They don't know much about business, don't have the bucks, and so we'll provide them with a structured environment. At the other extreme, we attracted a man who sold his last medical imaging company in Frederick, Maryland, and decided to start another business. He got his Masters degree from the University of Missouri at Rolla and decided to move back. He has the management experience and the bucks, but we can still provide the structure he needs to get going again."

According to Myers, a private, for-profit incubator is appropriate in a rural setting. Although most rural incubators around the country are publicly sponsored, Myers claims that, "You need some hard-nosed business people making decisions based on a profit motive. If they're volunteers, you have to ask, 'Will they have the same commitment?' "

Northwest Pennsylvania

Are there enough firms in the mountains of Pennsylvania to make an incubator work?

Northwest Pennsylvania is a region with an aging industrial base and high unemployment, exacerbated by plant closings. Several years ago, a number of smaller towns in the region began to look at new ways to redevelop the area's economy and expand economic opportunity, including small business incubators.

Girard: Adaptive Reuse

The City of Girard (population 2,600) is 15 miles from a town of 120,000. Girard turned to the incubator concept after the Marx Toy Company went bankrupt, leaving vacant a 330,000 square foot building. Peter Homich and the Girard Area Industrial Development Corporation knew that the chances of attracting a large corporate tenant were slim, and spent $1 million to acquire and subdivide the facility. In 1982, the Industrial Commons came into being.

Their faith in local small business has been rewarded, with the project about 75% occupied by a mix of existing and brand new enterprises. One firm had been shut down by its parent company but was purchased and 'saved' locally, and is now a valuable, job-generating tenant.

Project Director Homich stresses that it's not just cheap rent, but the total package of the facility, management, and services available that makes it advantageous to locate there. The majority of tenants *are* local, and local publicity is a key to reaching entrepreneurs, particularly through media coverage of early success stories.

Ridgway: Managed Redevelopment

In Ridgway (pop. 5,600), a 220,000 square foot building is being renovated by Ron Kuleck and the North Central Pennsylvania Regional Planning and Development Commission. The 1930s-vintage industrial plant was structurally sound despite having been vacant for 10 years. Plumbing, electrical, and heating systems required repair.

Energy costs are a big factor in business decisions in the region. New facilities are being built in more energy-efficient areas. A new start-up looks at the utility bills of the last two years—and it's scary. I know we'd do better if we had more energy-efficient space," says Kuleck. "Good space is at a premium in the region; there are a lot of white elephants around."

The area around Ridgway in North Central Pennsylvania continues to be hit by plant closings and relocations, and the incubator is a response to both that economic dislocation and the need of small firms for quality space. Funding in 1983 from the Economic Development Administration (EDA), the Appalachian Regional Commission (ARC), and local sources has gone towards renovating the building. Because of the renovation timetable for the quarter-mile long building, Kuleck has not aggressively marketed the project beyond its three existing firms. Even so, there is a waiting list, and Kuleck gets "more of the local entrepreneurial-type feelers than new locators."

Incubator developers need to be patient and realistic about funding and redevelopment timetables. "We won't start another until we have this one working as it should," says Kuleck.

Warren: Downtown Retail Revitalization

Liberty Street Marketplace in Warren, Pennsylvania (pop. 12,000), is located in the central business district in a vacated Kresge department store. The project is directed by Rick Weekland and the Warren-Forest Counties Economic Opportunity Council.

The Council, a community action agency, blended $80,000 in local and ARC funds with a $310,000 shared mortgage from two community banks to subdivide the store into small retail units. Not only is the incubator unique because of its mission to fill the "hole" in downtown retail, you also won't find the below-market rents that many incubators feature. The council "didn't want to be in the business of doing this forever," said Weekland; "We didn't want artificial supports for the tenant companies."

Thirteen tenants occupy the building, with three more on the way. All are from the Warren area; four are offshoots of firms from nearby Jamestown, New York, and the rest, local start-ups. Enormous attention was generated when the project first opened, with 60-70 inquiries that were screened down to the first core of 7 tenants.

A market study identified other possibilities. "We did a total retail analysis, but not to set up an incubator," Weekland noted. A bookstore, a video rental outlet, and a beauty shop were identified as likely candidates. All three are now tenants, with the beauty shop being formed when three home-based beauticians joined forces and opened downtown. A retail market study, says Weekland, "is useful for any small community, and available fairly easily from universities and planning departments."

Local support for the project was critical. The Council secured the early participation of the local public-private development council and other officials. "The majority of merchants downtown favored the project," Weekland adds. "Some of the local realtors viewed us competitively, but we've since spun off new businesses into other locations. Our perceived impact on downtown shopping has been positive. There are still detractors who think that public dollars shouldn't be in the business of housing businesses."

The Council offers a variety of services to tenants which are also available to other Warren businesses, including loan packaging. The project may soon be transferred to a private operator to free the Council for other projects.

U.S. Small Business Administration
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SBA

Small Business Incubator

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March, 1986

The following list of Small Business Incubators was compiled by the U.S. Small Business Administration's Office of Private Sector Initiatives.

It is being presented here to assist in the transfer of information between established incubator facilities and those that are interested in learning more about small business incubators.

Inquiries about particular incubators should be addressed to the individual incubator facility.

The listing of a facility does not constitute an endorsement by the Small Business Administration and is only presented for information purposes.

As we learn of other facilities, we will modify our list and make it available.

We hope you will find the list helpful and we thank you for your interest and support of small business.

Small Business Administration
Office of Private Sector Initiatives

Together We Can Do It!

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Incubator

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Incubators

The Bradley Industrial Site, Bradley

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Area Jobs Development Association
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Bradley, IL 60915
(815) 933-2537

Control Data Business and Technology Centers, Champaign

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Fulton-Carroll Center for Industry, Chicago

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Shetland Properties of Illinois, Chicago

Andy Lapin
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(312) 738-3121

also

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Bedford Park, IL 60638
(312) 496-1917

The Decatur Industrial Incubator, Decatur

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Sauk Valley Small Business Development Incubator, Dixon

John Edmonds, Director
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Galesburg Business and Technology Center, Galesburg

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Kankakee-Roper Incubator Building, Kankakee

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Macomb Business & Technology Center, Macomb

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Maple City Business & Technical Center, Monmouth

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DesPlaines River Valley Enterprise Zone Incubator Project, Rockdale

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Business Center for New Technology, Rockford

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Coordinator
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Rockford, IL 61101
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Electronic Decisions, Inc., Urbana
(Opening January, 1986)

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Les Stevens
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"A Partners for Small Business Publication"

SBA **Small Business Incubator**

Resource Summary

A growing number of communities are experimenting with small business incubators as one element of their business development and retention strategies. As generally understood, a business incubator is a facility with adaptable space which small businesses can lease at a reduced rate and on flexible terms. Typically, support services are available on an as-needed basis. Financial assistance or management and technical assistance services may also be offered. Most incubators limit the amount of time a tenant may occupy space in the facility; this period usually ranges from two to five years. Some local economic development agencies offer space in nearby industrial parks to businesses that have "graduated" from the small business incubator.

The basic premise of most efforts to develop small business incubators is to encourage new business formations and to combat the high failure rate of new businesses (as high as 80 percent, by some estimates). An incubator can reduce the obstacles to new business formation and expansion by:

- offering below-market-rate rental space on flexible terms
- eliminating building maintenance responsibilities
- allowing tenants to share equipment and services that would be otherwise unavailable or unaffordable
- increasing entrepreneurs' awareness of and access to various types of financial and technical assistance that may be available
- providing an environment where small businesses are not alone, thereby reducing the anxiety of starting a new business as well as offering incubator tenants an opportunity to give each other business
- increasing the business tenants' visibility

This resource summary was prepared in cooperation with the National Council for Urban Economic Development.

The community also benefits from establishment of a small business incubator by:

- transformation of underutilized property into a center of productivity
- creation of opportunities for public-private partnerships
- diversification of the local economic base
- enhancement of the locality's image as a center of innovation and entrepreneurship
- revitalization of the immediate surrounding area
- increased employment opportunities

The sponsors of incubators vary, depending on local economic conditions and business development strategies. Mihailo Temali, et al., of the University of Minnesota's Humphrey Institute of Public Affairs, have identified four types of incubators according to their sponsorship. These are:

- publicly-sponsored, such as the Broome County Industrial Incubator in Binghamton, N.Y. which is operated by the Broome County Industrial Development Agency
- nonprofit-sponsored, such as the Fulton-Carroll Center for Industry, operated by the Industrial Council of Northwest Chicago
- university-related, such as the University City Science Center, started in 1963 by a consortium of 28 universities, colleges and medical schools in and around Philadelphia
- privately-sponsored, such as the Control Data Corporation's Business and Technology Centers established in many cities around the U.S.

The National Council for Urban Economic Development has identified three types of incubators based on the character of the facility and the nature of the businesses that are located therein.

These include:

- incubators located in buildings that have undergone adaptive reuse or industrial rehabilitation

- newly constructed facilities and facilities that are keyed to industrial parks

- high-tech and university-affiliated incubators

The current level of interest in the incubator concept is intense, as evidenced by the increasing frequency of reports of new projects. Those seeking further information on local experiences with incubators and development of incubator facilities are directed to the publications and information sources cited below.

Those interested in local experiences with incubators also should be alert for articles in both the general press and the industrial and business development press. In particular, articles on new enterprise development, venture financing and high technology development increasingly reference incubator projects.

* * * * *

PUBLICATIONS

The following publications are available from the sources as noted.

Incubator Resource Kit - includes a directory of small business incubators by state, perspectives on incubators reprented from Incubator Times and an incubator brochure. Office of Private Sector Initiatives, U.S. Small Business Administration, 1441 L Street, N.W., Suite 720-A, Washington, DC 20416.

Incubator Times, Office of Private Sector Initiatives, U.S. Small Business Administration, 1441 L Street, N.W., Suite 720-A, Washington, DC 20416.

Small Business Incubators: A Guide to Start-up and Management, Office of Private Sector Initiatives, U.S. Small Business Administration, 1441 L Street, N.W., Suite 720-A, Washington, DC 20416.

Small Business Incubator Conference Planner, Office of Private Sector Initiatives, U.S. Small Business Administration, 1441 L Street, N.W., Suite 720-A, Washington, DC 20416.

Advance Technology Development: A Review of Small Business Incubator Initiatives, Governor's Office of Policy and Planning, Harrisburg, PA, November, 1982, 21 pps.

Business Incubators: A Tool for Economic Development, David Allen, Publications Office, Council for Urban Economic Development, 1730 K Street, NW, Suite 1009, Washington, DC 20006 (for sale).

Business Incubator Development in Rural Areas, Mark Weinberg and Lori Erdy, Ohio University, Department of Political Science, Bentley Hall, Athens, OH 45701.

Business Incubator Profiles, Mihailo Temali and Candace Campbell, Hubert H. Humphrey Institute of Public Affairs, University of Minnesota, Minneapolis, MN,1984, 61 pps. A survey of 50 business incubators for the institute's Cooperative Community Development Program.

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Incubators for Innovation - A Plan for California Regional Innovation and Job Creation, Richard Dorf and Barbara Purdy, University of California, Davis, March 15, 1985. A Report prepared for the California Department of Commerce, Office of Small Business.

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"Private Sector Initiatives and Public Sector Accountability: A Case Study of Contracting with City Venture Corporation," Calvin Bradford, Journal of the American Planning Association, American Planning Association, Chicago, IL, 49, Summer 1983, pps. 326-335. Includes references to local experiences with Control Data Corporation Business and Technology Centers.

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Small Business Incubators: A How-To Guide, Community Information Exchange, National Urban Coalition, 1120 G Street, N.W. #900, Washington, DC 20005 ($2.50).

"Small Business Incubators: A Positive Environment for Entrepreneurship," David N. Allen and Syedur Rahman, Journal of Small Business Management, July, 1985.

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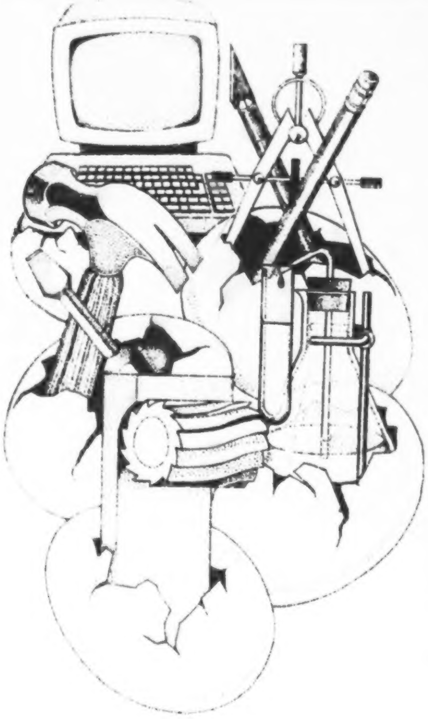
Incubator Times



Small Business Incubators: State & Local Initiatives

Is "incubator" a buzzword? Probably. But there are enough glowing success stories to show why people are "buzzing." They have good reason. Incubators are now a hopeful reality on our economic landscape.

Just about one year ago there were nearly 40 incubators up and running around the country. Recently this office wrapped up a national series of seven Small Business Incubator Conferences that attracted over 2500 potential sponsors or partners from around the country. We have, this year, answered over 10,000 written requests for information on incubators, and have witnessed the development of what now totals more than 110 incubators nationwide.

In past issues of *Incubator Times*, we focused on incubator projects and the prime movers behind them. We wanted to relay what the key ingredients for a successful facility might be, and how to find your own version of them in your own community. We have learned, from our travels and discussions, that there are some standard ingredients for a successful incubator, but no magic recipes.

In this issue, we will go beyond what makes a good incubator to a discussion of what state and local governments are doing to create an environment for successful incubator development. Since hitting the economic development scene, the incubator trend has met with remarkable support from federal, state and local organizations. At the federal level, existing programs and structures have been used creatively to aid incubators. We are only beginning to see where incubators fit in the federal matrix.

But much of the ingenuity—the adventurous innovations—are happening at the local level. That is where the real excitement in incubators is brewing.

State and local legislatures and agencies are acting to create an environment in which incubators (and small businesses) can thrive. It is a proactive response to incubator development; it is a vote of support for an evolving development tool.

The incubator development process requires three things that states and localities can provide or enhance: education, technical assistance and financing. From sponsoring state incubator conferences, to designating an incubator staff person or establishing a local seed capital fund for incubator tenants, a variety of approaches have developed.

In general, state and local governments can: 1) extend existing programs to include incubators; 2) reduce burdens or create incentives to promote incubator development; 3) provide education and information to potential sponsors; 4) provide technical assistance to projects; and 5) develop financing mechanisms for incubator development and tenant financing.

SBA Boise District Director Joe Kaeppner, Governor John Evans of Idaho and SBA Administrator Jim Sanders at the Small Business Incubator Conference in Spokane, last June.

There are no right or wrong policies or programs to encourage incubator development. Those that have developed are a result of growing local interest and a state's economic development needs. As programs develop there will be more debate about what programs are necessary and which are superfluous. There will be debate about how active a role a state or locality should play in influencing incubator development.

This issue of *Incubator Times* is devoted to what state and local initiatives have already been developed to promote incubators. It is not an exhaustive survey, but a solid introduction to what can be done.

Samantha Silva
Editor

What's New in the Cities and States

Among states and localities that have forged incubator development programs, there are well known success stories. The State of Pennsylvania, with more operating incubators than any other state in the country (over 20), has perhaps the most well-known and successful statewide incubator program. Legislation passed last year includes a $17 million Small Business Incubator Loan Program and a $3 million Seed Capital Challenge Grant Program. Funds will be spent over three years from a $190 million economic development bond issue passed by voters. The loan program is administered by Pennsylvania's Ben Franklin Partnership Board.

Pennsylvania is a shining example of what a state can do to create an environment where incubators have a better chance to thrive. But every state or city has special needs and unique resources to commit to incubator development. Those that are showing a keen interest in the incubator phenomenon are shaping programs tailored to their local economies. Here are two examples of what states have done, and a summary of some city-sponsored initiatives.

Illinois

Imagine that you live in Illinois and want general information on incubators. Imagine that you can dial an "800" number and hear a tape recording from the Illinois Department of Commerce & Community Affairs (IDCCA) that tells you to push a number on your phone to activate a recording on small business incubators, one of many economic development topics available through the number.

This simple but effective service is a reality in Illinois—a small part of an evolving state program to support development of small business incubators. The capstone of the effort is incubator-specific legislation—part of the recently passed "Build Illinois" Program, sponsored by Governor Thompson.

"Build Illinois" is a comprehensive legislative package designed to promote Illinois' economic development. Among its provisions is a $1,000,000 appropriation to set up four new incubators in the state during FY 1985 (the state has already assisted 8 incubators). An additional $1,000,000 was designated for incubator development in the Rock Island/Moline area, where International Harvester just closed down a 4,000,000 square feet plant, leaving unemployment at a high twenty-percent.

The Illinois incubator project is an ambitious one, but it has a history that supports the state's increasing involvement. Two years ago IDCCA worked with Control Data Corporation to assess the feasibility of small business incubators in smaller, rural settings. The "Western Illinois Project" touched four small communities, two of which now have operating incubators, and two others still in the final "fix-em-up" stage.

After its success in Western Illinois, the state applied for a grant from the Office of Community Services of the Department of Health and Human Services. From that Illinois received $500,000, which it used to renovate and expand two incubators in Joliet and Rockford, and for a seed capital fund for those two incubators.

Gail Imholz, who describes herself as both the head *and* the tail of the state's incubator program, says these experiences ultimately led to the design of legislation to promote incubator development as part of a broader economic development package. In addition to the incubator provisions, money was also appropriated for additional seed capital funds around the state, many of which will provide funding for incubator tenants. IDCCA is currently designing an application for interested communities.

Imholz is enthusiastic about the role a state can play. "You can't just start up ten incubators in ten communities. They all have to be tied somehow," says Imholz. "By networking, two companies in different incubators can buy and sell from each other. It's a real marketing technique." She cites one example of three firms currently in the Rockford incubator. One designs computer circuit boards; one manufactures the parts; and one assembles them. Imagine the possibilities if you add all the state's incubators.

Imholz warns that even though the state is playing a leadership role, including participation in incubator workshops around the state, "The communities have to feel ownership for the project." But, according to Imholz, "If the state hadn't played a lead, there would be no incubator program today."

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Coming in the Next Issue:

A Critical Review of Small Business Incubators

- What do studies say?
- What do the tenants think?
- Is it a fad or does it have staying power?

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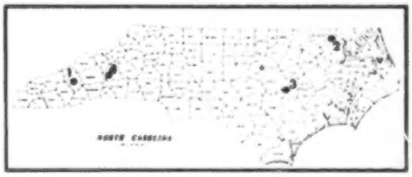
North Carolina

The state of North Carolina took a different tack in developing a state program for incubators. In 1982, the Economic Committee of the Governor's Task Force on Science and Technology forged a program to promote state economic and business development. The two central components were a seed capital fund for research and development firms and incubators to promote local entrepreneurship and job creation in the face of failing attempts at industrial recruitment. After being passed into legislation as a Special Bill at the tail end of the 1983 Legislative Session, the components of the program were joined under the umbrella of the North Carolina Technological Development Authority (NCTDA).

In designing the incubator part of the program, different approaches were considered. Both capital intensive university based facilities as well as community based incubators were considered, according to Kirsten Nyrop, former Executive Director of NCTDA. For political as well as economic reasons, the state chose to structure a program for locally based non-profit organizations to develop moderate cost, modest incubators.



Location of incubators in North Carolina.

The program was structured as a competitive matching grant program. Locally based non-profits with a working relationship with a local university, college, community college, or technical institute submit a proposal to the TDA to get up to $200,000 in a matching grant. The non-profit must match the state money at least one for one in dollars or real estate value. Once the grant is awarded, the money is disbursed in stages as the development process takes place.

The NCTDA did a great deal of publicity all over the state to be sure that even the most rural counties were aware of the program. It was thought that rural and poor counties could compete for program dollars if they were informed about the program.

In 1984, the first year of the program, one grant was made to the Smoky Mountain Development Corporation in Haywood County in the western part of the state. That facility is expected to open in October 1985.

In 1985, a second grant was made to the Smoky Mountain Development Corporation for a facility in McDowell County. Two other grants were made in the second program year to the Northeastern North Carolina Tomorrow in Ahoskie and to Dillard Building Inc. for an incubator in Goldsboro, both in the eastern part of the state. All of the grants have been made for the development of facilities in rural areas.

The program has not been without its problems. According to Julianne Tenney, Executive Director of the NCTDA, a major problem for the program is the state-ownership provision in the initial legislation and a related market value lease provision in 1985 legislation on state-owned real estate. The initial legislation requires that the state take title to the incubator buildings to which it makes grants, leasing the facility back to the non-profit. Unrelated legislation requires all state-owned buildings to lease space at market value rents. While this provision was not intended to affect the incubator program, the law is interpreted to apply to it. The four facilities already in the program are exempt from the law. Any new facilities awarded grants must comply with it. Tenney hopes to change the state ownership provision in the next short session of the Legislature and to get exemptions from the market value lease provision for any facilities awarded grants in the next program year.

Another problem with the program, also from the initial legislation, is a two year limit on the length of time tenant firms can be in the facility. According to Nyrop, this is a restrictive and perhaps arbitrary time limit on the tenant firms. Sometimes it takes only a year or two for a small business to get on its feet. Other times it takes three, four, or even five years. The two year time limit forces firms to move at a point when they might not be ready.

Nyrop, who was involved in the development of the original legislation, says that if she could change anything in the initial legislation, she would exclude the state ownership provision and would make the two year time limit more flexible. Although there have been some problems in working with the community based non-profits—slowness in scheduling, some resistance to NCTDA oversight, and other day to day complications—Nyrop says she would argue again for the program to be structured the same way. The problems are part of the trials and tribulations of working to develop the entrepreneurial base and diversify the economy in rural counties.

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What A City Can Do

More and more American cities are promoting small business. Small business incubators, long before they were heard of at the state level, were flourishing in a few progressive cities that were effectively creating a "climate" for small business growth and development. The American incubator prototype developed as an urban incubator often spearheaded by a city government or agency. Since then, the tool has quickly spread as a popular element in city economic development plans.

Options available to a city interested in incubator development depend largely on what assistance is already available, the level of local interest and sophistication about incubators, and the resources it can offer. As in state options, there are several levels of commitment a city can make, from providing basic information to potential sponsors, to being an active development partner in a specific incubator facility.

The city can provide technical assistance, fund feasibility studies, establish working groups, or participate in workshops for neighborhood and community groups on the concept. It can publicize the availability of city or state funds, including Community Development Block Grants or Urban Development Action Grants. If the city owns surplus buildings or land (unused school properties are a good example), the city may donate or lease the property at a nominal fee to the incubator sponsor. Using a package of enterprise zone or target area incentives, the city can promote investment in an area where an incubator is feasible if more support and money can be attracted to the project.

Financial support can also vary. A city may commission a feasibility study that will lay the groundwork for further incubator development. It can establish a seed capital or revolving loan fund, much like state funds. For cities with bond issuing authority, industrial revenue bonds can be an important source of incubator financing.

The city can also play an important role in reducing disincentives or roadblocks to incubator development, particularly zoning restrictions or city ordinances that are prohibitive. The city must weigh the benefits of the incubator against whatever the zoning is trying to prevent, e.g. traffic problems.

Among cities that have taken an active leadership role is *Seattle*, whose city Department of Economic Development brought together an incubator task force and persuaded the Chamber of Commerce to host the group.

The City of *Chicago*, has set aside $800,000 for support of 6-8 incubator projects. Thus far the City has issued a Request for Proposal and has narrowed the field down to 12 potential projects. It is not yet clear whether the fund will be a grant or loan program.

More recently, the City of *Jackson*, Mississippi entered into a public-private partnership with the State of Mississippi and Suburban American Corporation that will establish the Mississippi Technology and Business Center in Jackson, scheduled for opening in Spring, 1987. Half of the $9.25 million 100,000 square foot building will house incubator space principally for service-oriented businesses with growth potential.

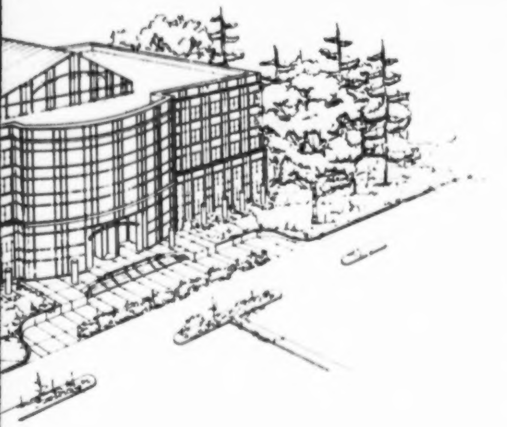
Of the $9.25 million, the State will contribute $1 million and the city of Jackson, $250,000. Suburban American Corporation will repay the $1.25 million after 10 years. SAC will own and operate the building and the City, the State and the private sector will participate on a Board of Directors that will govern the incubator.

Tulsa, Oklahoma pioneered an incubator effort through an Economic Development Administration grant that paved the way for a 15,000 square foot incubator facility located in the inner city—a Tulsa Urban Renewal Authority area. Expected to open in December, the building will be owned by the City and is virtually debt-free.

According to Emily Warner, Director of City Development, the City is taking an entrepreneurial approach to finding just the right management for the building. The City sent out a Request for Proposal to Tulsa's private sector to see who could come up with the most entrepreneurial proposal for serving the incubator tenants.

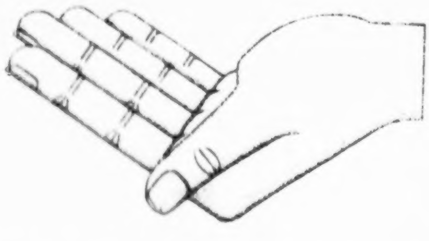
As part of the City's overall economic development strategy, *St. Paul*, Minnesota joined with a private building developer/owner to develop an incubator in part of a commercial building. The City financed a low-interest mortgage to the developer, who owns a building. In return,the developer had to lease 20,000 square feet at cost to the city for the incubator and to invest some of the money he has saved due to the low interest rate in other developments in the neighborhood. The City subleases its space to small businesses.

Bob Kessler, an Economic Development Specialist at the City's Department of Planning and Economic Development, makes sure these businesses get the appropriate assistance: According to Kessler all tenant needs must be addressed. "Incubators are the real world. You can't go half-way," St. Paul's commitment to incubators and small business embodies that philosophy.



An architect's drawing of the proposed Mississippi Technology & Business Center for Jackson.

Because of the emphasis on job creation, the incubator is tied to a state employment program. Each lease specifies that the firm must make every possible effort to hire the unemployed. In return, the State subsidizes the wages of those employees for six months.



Helping Hand

The resources available to assist small business incubator sponsors and managers now include:

- The National Business Incubation Association, 6914 Andover Drive, Alexandria, VA 22307, (703) 765-0927.
- International Association of Incubators, Eastern Washington University, 216 Showalter Hall, Cheney, WA 99004.
- "The New Business Incubator in America," by Raymond W. Smilor, IC^2 Institute, University of Texas at Austin. The paper highlights initial findings of a national survey cosponsored by SBA's Office of Private Sector Initiatives, Peat, Marwick, Mitchell & Co., and IC^2 Institute.
- "Business Incubators: A Tool for Economic Development"—reports results of a nationwide survey of business incubators as conducted by Dr. David Allen of Pennsylvania State University. Available for sale from: Publications Office, Council for Urban Economic Development, 1730 K Street NW, Suite 1009, Washington, DC 20006, (202) 223-4735.
- "Stalking the Latent Entrepreneur: Business Incubators and Economic Development," by Candace Campbell and Don Samuelson. From *Economic Development Review*, Summer 1985. Available from the American Economic Development Council, 4849 North Scott Street #10, Schiller Park, IL 60176.
- A variety of Grant and Loan Programs offered through the National Trust for Historic Preservation may be a financial resource for incubator projects that help preserve and revitalize historic structures. For information, contact the Office of Financial Services, National Trust for Historic Preservation, 1785 Massachusetts Avenue NW, Washington, DC 20036, (202) 673-4000.
- The National Trust for Historic Preservation is sponsoring two 2-day courses to help non-profit organizations make use of Investment Tax Credits and other historic preservation incentives for real estate development, in Cleveland, November 4-5 and Hartford, November 7-8. For more information contact the National Trust for Historic Preservation (address above).
- The Industrial Innovative Concepts Fair, sponsored by the U.S. Dept. of Energy, November 13, 1985 at the Hyatt Regency in Crystal City, VA. The Fair will exchange fledgling research concepts for saving energy. For more information contact Buhler & Abraham, Inc. at (301) 681-3980.
- A computer software package has been developed for conducting feasibility studies on incubators by a firm in Florida. For more information contact: Mr. K. James Crandell at (305) 974-2241.

Incubator Conference Calendar

10/85 CONTACT:	**ANCHORAGE, ALASKA** Bill Alberle Office of Enterprise 3601 C Street, Suite 722 Anchorage, AK 99503 (907) 563-2989
11/13/85 CONTACT:	**PENNSYLVANIA** Denise Musser Dept. of Community Affairs P.O. Box 155 Harrisburg, PA 17120
12/85 CONTACT:	**VIRGINIA** Nic Walker Office of Small Business 1000 Washington Building Richmond, VA 23219 (804) 786-3791
2/86 CONTACT:	**FLORIDA** Roger Griesbaum Florida Dept. of Commerce 107 West Gaines Street Tallahassee, FL 32301 (904) 487-7314
May 5-7, 1986 CONTACT:	**ALBANY, NEW YORK** Betty Herzog SUNY-ALBANY Administration Room 231 Albany, NY 12222 (518) 442-3000

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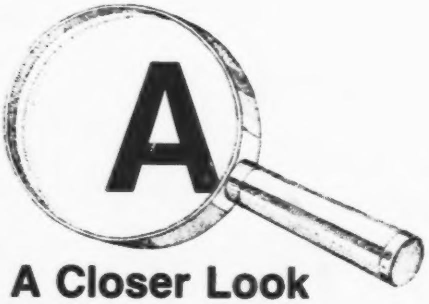


A Closer Look

Small Business Incubator Legislative Update**

Arkansas

Broad enabling legislation in 1983 created the Arkansas Science and Technology Authority "to provide leadership, direction, incentives and technical assistance to enable (the) state and its people to gain the advantages and benefits of advanced science and technology." The Authority has created a program to assist the development of university based incubators which will promote the development of innovative new businesses.

District of Columbia

Bill 6-205, Business Incubator Facilitation Act of 1985, was introduced to the Council of the District of Columbia on April 23, 1985. The purpose of the bill is "to provide for the establishment of one or more business incubators in the District of Columbia by offering the use of city-owned property, credit support for business incubator financing, and other incentives to ensure that business tenant costs for space and services are to be kept to a minimum."

Illinois

(See article this issue). To receive funds from the Illinois program, and educational institution, nonprofit or local government must submit a pre-application. Promising proposals will be identified and full application requested. The program will finance up to 50% of the cost of the incubator up to $650,000. $1 million will be available for the program in 1986. Workshops will be held around the state to present information on the program, along with details of other "Build Illinois" components.

Indiana

The Institute for New Business Ventures has a two stage matching grant program for cities, counties, chambers of commerce, and local economic development groups to do feasibility studies for incubators. The state also considers incubators eligible for Community Development Block Grant and Urban Development Action Grants.

Iowa

The Iowa legislature passed legislation in 1985 creating a five-year state lottery with proceeds used for a number of purposes, among them a small business incubator program. The Iowa Development Commission is drafting rules to create an incubator program. Program information should be available in early Fall of 1985.

Kansas

In 1984, the Kansas legislature passed legislation "providing for the establishment by the Department of Economic Development of incubator facilities to provide building space and support services for small business concerns." The Act however, calls for the state to allocate CDBG funds to local non-profit sponsors of incubators, which is an ineligible use of CDBG money. As of yet, no initiatives have been undertaken to amend the legislation.

Louisiana

In 1985, the Louisiana legislature passed an act creating a small business incubator assistance program. The Act provides for the Louisiana Small Business Development Corporation to make loans or loan guarantees to any qualified local entity for up to half of the development costs of an incubator facility up to $500,000. The rules for the program are being developed and it is expected to be operational in the Spring of 1986.

Michigan

The Michigan Business Incubation Act, Public Act 198 of 1984, provides for the Department of Commerce to designate up to ten vacant or nearly-vacant buildings as incubator centers. The state will fund the operation costs (those not covered by rents) of incubators for up to three years. The Department of Commerce would work with local Community Boards in the development of the facilities. The legislation has not yet been funded.

Mississippi

In 1983, legislation created the Mississippi Research and Development Center to promote business development and assist in the development of an incubator. Up to $100,000 in financing will be available as incentive to gain private investment in the facility. The Center is developing a prototype incubator with private investment in Jackson, which is expected to open in the Spring of 1986. After the facility opens, a more general incubator program may be considered.

Missouri

In 1984 legislation created the Missouri Corporation for Science and Technology. The Center in turn created four Centers for Innovation, each affiliated with a branch of the state university. Each of the Innovation Centers in turn is using part of its allocated funds to develop an incubator. Two are open; two are in the planning and development phases.

New York

The New York State Science and Technology Foundation was created by 1963 legislation, revitalized by 1979 legislation and reconstituted by 1981 legislation to "encourage, support and promote the growth of technological enterprise in New York State and to foster the spirit of entrepreneurship that is so essential to the growth of technology based industry." The Foundation has assisted incubator facilities associated with universities around the state and is developing an incubator program.

North Carolina

In 1983, the New Technology Jobs Act established the North Carolina Technological Development Authority (NCTDA) to increase job creation around the state through small business development. One time grants of up to $200,000 are made to local nonprofit corporations to establish incubator facilities. The grants must be matched by cash or real estate value which is not financed by any other state government funds or real estate.

The organization receiving the grant is responsible for the management and maintenance of the facility and must have working relationships with existing technical assistance providers. (See article in this issue).

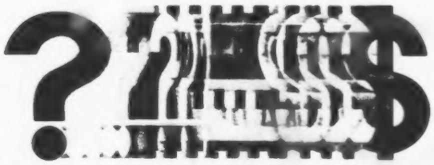
Ohio

In 1983, legislation was passed to establish the Thomas Edison Partnership Program to "promote the welfare of the people of the state of Ohio by encouraging the interaction of the business and industrial community and Ohio educational institutions." Part of the program provides a challenge grant competition for small business incubators. To date $1.6 million has been spent to fund six incubators with a one to one match.

Pennsylvania

Pennsylvania's program (described above in this issue) is not intended to stand alone as a source of financing (maximum loans are 50% [illegible] 50,000—whichever is less). The seed capital funds must be matched 3 to 1 with private funds.

**For copies of state legislation, please contact the state legislative office.



Ask the Network

Q. What options does a government entity have to assist incubator development? Is a loan program the only option?

Financial assistance is one option on a long list of ways governments or agencies, at all levels, can assist incubators. Levels of involvement will depend on the commitment of your organization to the incubator idea, and the resources that can be tapped locally.

The minimum level of involvement is to designate a person on the economic development staff (or equivalent) who can be a contact person for potential sponsors or tenants. That person should come up to speed on incubator developments, nationally and locally, and become familiar with available literature. He/she should think about what current programs could assist incubators or what legislation/ordinances might enhance or hinder their development. State enterprise zone legislation is a good example of a possible incentive.

By tracking local incubator projects and visiting one or more facilities, the person will be better able to offer technical assistance or referrals to interested incubator sponsors.

In conjunction with other groups, such as the local SBA office, you can also develop additional incubator materials. Some groups have written a state/regional supplement to the SBA Incubator Handbook to direct people to state and local sources of support.

The next level of involvement is more proactive and includes promoting the incubator idea to arouse interest in the state or community—here the entity plays a leadership role more than an informational one. At this level you can sponsor an incubator seminar to educate possible sponsors or bring together the public and private groups necessary for incubator development. You can organize the meetings, or simply be a player in them.

If you want to be a partner or facilitator for an individual incubator, donate or lease a government-owned surplus building for use as a facility, or contract with a consultant to do a feasibility study or organize a facility.

An even stronger commitment might involve a loan or grant program for incubator development. Similar existing programs vary widely in funding sources (industrial revenue bonds, lottery proceeds, state appropriations) and funding uses (loans, grants, feasibility study financing, etc).

Also consider operating a regional, state or local database on incubator projects and their tenant firms. Doing so can increase the opportunities for joint ventures, mergers, and between-business buying and selling.

For current incubators, don't miss the chance to integrate existing government programs that assist small businesses. Contact your local SBA office to find out what services it can offer.

For more information contact the Office of Private Sector Initiatives at (202) 653-7880.

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